

NOVEMBER 1987

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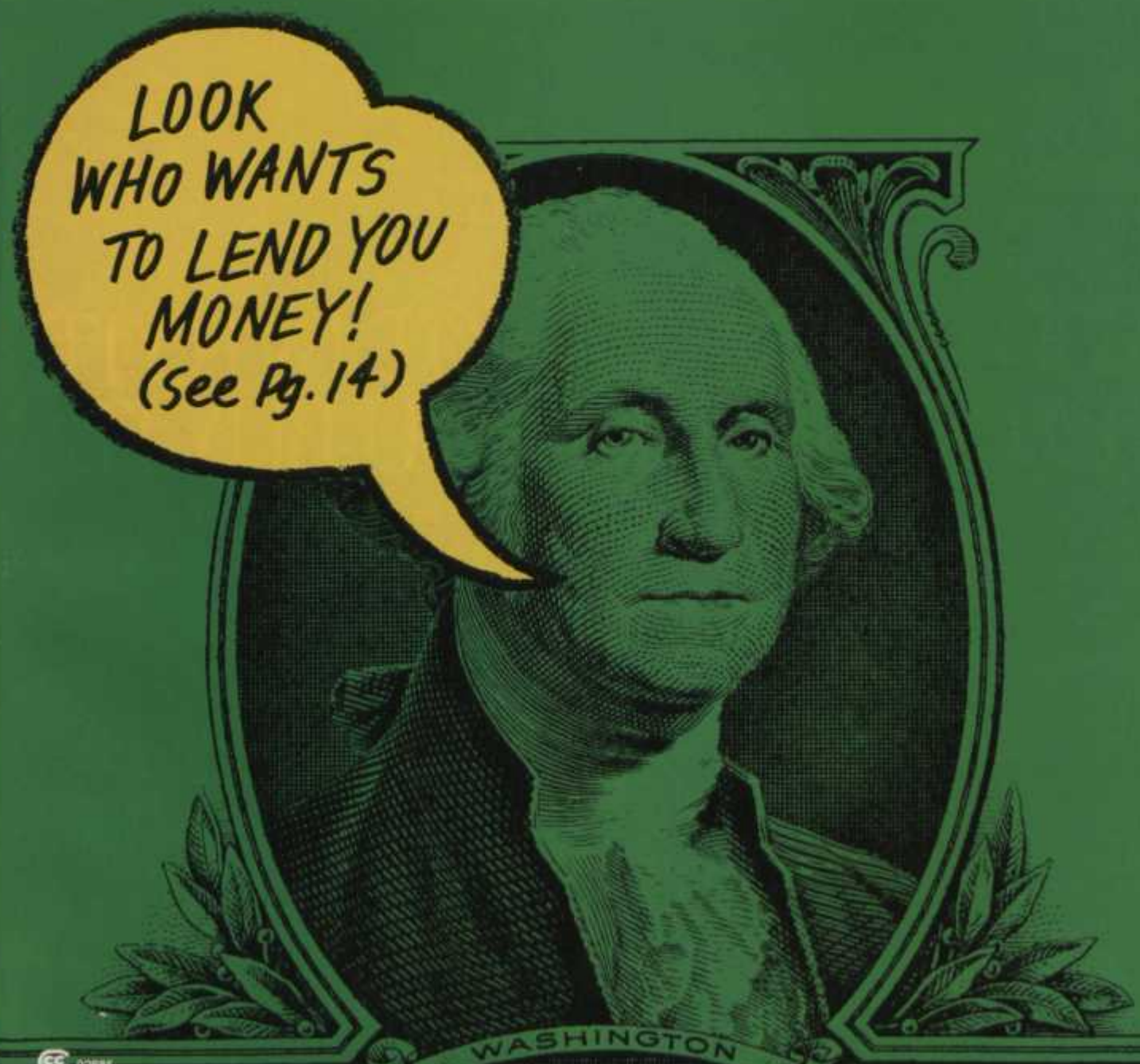
Pay Now,
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Small Business
Confidence Up

The Customer Is
Always Right—Still

Nation's Business

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(See Pg. 14)



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Nation's Business®

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MANAGING YOUR BUSINESS

Money is getting more available for small businesses looking for growth capital. (Cover Story, Page 14)



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Smaller amounts often seem to be the hardest to find. But you can uncover—and tap—unexpected new sources.

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Complaints about airline service won't stop until the purse strings on taxes collected from travelers are loosened.

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The new immigration law is hassling more small-business people than illegals.

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The third semiannual *Nation's Business*-Ernst & Whinney survey of heads of small businesses.

Cover Design: Vignelli Associates

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Business flyers are complaining that long delays in scheduled flights are imposing high costs. The irony: The government has money in hand to pay for improvements. (Page 24)



PHOTO: T. MICHAEL REZA

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Madelon Talley has interviewed big investors to find out their secrets and pass them along to readers. (Page 76)



PHOTO: DONNA FERRATO

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Liability Roulette

By Edward R. Court

In less than three years, my product-liability insurance has risen from \$6,000 to \$40,000 a year. And that \$40,000 buys only 10 percent of my 1984 coverage.

Over the past 19 years, I have built my security-gate manufacturing and installation business to the point where it now employs 45 people. Everything I have worked for—and the jobs of my employees—could be lost in one single judgment in what I believe is a “lawsuit lottery” for money-grabbing plaintiffs and attorneys.

It is a form of Russian roulette. Every security gate I install raises the

the tremendous amounts the insurance companies had paid to attorneys who represented me—the attorneys’ fees were often much larger than the settlements.

I thought about all the ridiculous nuisance suits that had come across my desk. The only purpose of these suits, I believe, was to persuade my insurance carrier to settle out of court (for \$3,000 to \$5,000) rather than spend a great deal more money defending the case.

We have all heard of the exorbitant awards by juries in negligence cases. I read recently where a competitor of mine in the East had settled a suit for

ernment. These reforms should include:

- Exempting a manufacturer from liability when the dangerous aspect of a product is inherent and recognized by the ordinary user or when the product provides an important benefit and the known risk is unavoidable.

- Applying a decreasing scale on contingency payments to attorneys—e.g., one third of the first \$100,000, one fourth of the next \$100,000 and 10 percent on the balance.

- Eliminating the collateral-source rule, under which juries cannot be told that a plaintiff suing one party has already received payment from another party for the same injury.

- Abolition of the joint-and-several doctrine, which applies when more than one defendant is sued. Under that doctrine, the defendant with the lowest degree of fault but the most money can be required to pay all or most of the damages.

And reforms do work. The California medical profession won passage in 1975 of the Medical Injury Compensation Reform Act, which contains the type of reforms I am recommending. The cost of malpractice insurance for physicians in this state has dropped substantially. We need similar action on business liability throughout the country. Until we get it, those of us who are trying to keep our businesses alive must continually ask ourselves: “Could we become the next jackpot in this lawsuit lottery? The answer for all of us is ‘Yes.’”

Our liability-insurance system is out of control. We must bring a sense of fairness and justice back to this legal system. Stop complaining to your insurance agents. They hear the same thing every day. Write to your representatives in Congress and in your state legislature. Tell them that you want reforms in our liability system. Tell them you want to know what they’re going to do about it.

If your state has an initiative or referendum on liability reform, get out and vote. You might even want to do what I did when my state had an initiative on this issue—let your employees out of work early to go vote.

But please don’t just agree with me and do nothing. Write to your legislators. Vote if you have the opportunity. Your business could be at stake. ■

There is a “lawsuit lottery” going on—with the winners crying all the way to the bank and the losers, like me, paying high insurance premiums and possibly losing everything.



odds against my company. And the most frustrating part of this gamble is that a judgment against me may have little or nothing to do with the quality or performance of my product.

When this problem first developed, I felt a lot of resentment toward the insurance industry. I believed it had created the liability crisis for the purpose of raising my premium rates while reducing my coverage. As time went on, and my understanding of the problem grew, I realized that, for the most part, insurance companies were reflecting their current costs of doing business. I found that most insurance companies were not willing to quote any figure on product liability for me and that many of them were getting out of the product-liability field. This is not the kind of response you get if there is money to be made.

I also remembered the amounts of money that had been paid out to settle claims against my company. I recalled

\$5 million. It is that and similar cases that make me think there is a “lawsuit lottery” going on—with the winners crying all the way to the bank and the losers, like me, paying high insurance premiums and possibly losing everything that they have worked for all their lives.

Consider my state alone. California insurance companies paid \$1.5 billion on behalf of their clients in 1984. More than \$1 billion did not go to pay hospital bills, repair property or make up for lost wages but for noneconomic damages, mostly pain and suffering.

Between 1980 and 1984, lawsuits in Los Angeles County were filed at a rate that was four times faster than the population growth. In 1985, the increase in lawsuits was 13 times the growth rate of the population.

The bottom line is this: Unless liability-damage payments are reduced, there will be little or no reduction in our insurance premiums and no assurance of keeping the assets we’ve spent a lifetime accumulating.

To reduce that cost, we need liability reforms by states and the federal gov-

Edward R. Court is president of Court Security Systems, Inc., in Van Nuys, Calif.

Letters

Use The Round File

The way to get rid of government forms ["Form Is A Four-Letter Word," August] is to refuse to fill them out unless they contain statements that responses are required by law and that there are penalties for not responding. If in doubt, wait and see if you get a second-request notice.

Business people are constantly complaining about government forms, but they can cut that type of paperwork in half by merely throwing away the "voluntary" forms that bureaucrats like to mail.

Ray Anderson
Evansville, Ind.

Keep the Marketplace Open

Articles appear almost daily in U.S. publications about Japanese-U.S. trade friction and the possible passage of a protectionist trade bill.

Most U.S. assertions about the closed nature of the Japanese market seem based on data from before 1980, while all Japanese claims are based on the present (since 1980), forgetting how Japanese industries had been protected in the past.

There is room for both countries to reassess the actual situation, study how best to cope with trade frictions and continue talks to preserve the long-cherished friendly relations between our two countries.

Protectionist laws could induce other countries to take similar measures, which could result in a contraction of trade and a slowdown of economic growth worldwide.

Eiichi Shiraishi
Tokyo

Most Japanese live in tiny houses and don't live luxurious lives, but we still are criticized by the United States and other major countries because of our trade surplus.

Yet American business people in Tokyo say that 80 percent of the imbalance is the fault of the United States, not Japan. Japan lifted various protective regulations and opened the market to foreign countries.

Do you know that American subsid-

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ies and joint-venture factories annually export huge quantities of manufactured goods to the United States from Japan to be sold under American brand names? Those exports would also be curtailed if protectionist legislation were passed, jeopardizing production and jobs on the U.S. side.

It is obvious that protectionist bills will never bring any benefit to the United States or to the world economy.

Kaneo Kawaguchi
Tokyo

Throw-Away Cars?

Mr. Kilpatrick's discussion of disposable items ["A Country Sage Looks Back," September] is timely, and the process goes far beyond razors, flashlights and such. He could also include portable stereos, automobile tape decks and TV sets, among other products.

Of course, these weren't meant to be disposable. It used to be that TVs, radios and other appliances were sold by servicing centers. If you had a problem with an appliance, you took it back to

the place of purchase for repair. As the discount stores entered the market, servicing dealers were forced out and under-warranty equipment had to be returned to the factory for service.

Merchandise no longer under warranty had to be repaired by independent repairmen—if they could be found. And often the manufacturer doesn't supply service information to these people. Added to the problem is lack of skilled repairmen to service today's complicated electronic equipment.

One day we may even see throwaway cars, if the computerized equipment in them costs more to repair than the cars are worth.

Frank Anderson
Great Falls, Mont.

We The People

I enjoyed reading your article on the Constitution ["200 And Going Strong," July]. This brilliant document is at once timeless and resilient, yet remarkably adaptable to ever-changing societal conditions. The article does a fine job of

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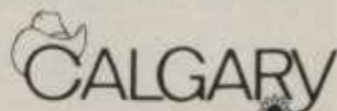
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Sometimes you're confronted with a situation that can seem overwhelming at first. How it turns out is solely determined by how you respond. And how you respond is a reflection of how strongly you believe in yourself.

Recently, we've faced some tough times as a company. But we've responded by being tougher. We had to in order to build the leaner, more efficient, better disciplined company we have become. We had to ask ourselves what kind of company did we want to be?

We decided we want to be an integrated domestic petroleum company with an emphasis on foreign exploration. For the time being, most of our capital will go to developing proven reserves. We are suspending high-risk, high-reward exploration and sticking to the more mature oil basins. And while we are spending less, we are spending smarter.

We will continue to support our main business through strong research and development as well as stronger reliance on high technology. It was this unshakeable commitment that resulted in our holding more active U.S. patents than any other oil company last year.

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TRUE CHARACTER IS REVEALED WHEN



YOU COME FACE TO FACE WITH ADVERSITY.

COMMENTARY

Letters

taking the reader along the hoary road of American constitutional-law development, providing succinct summaries of major developments along the way.

Challenges abound today, yet there is small doubt that this ageless document will continue to address the most pressing legal problems of our time.

Leo Uzych
Wallingford, Pa.

Are You Paid Up?

Concerning "Prompter Prompt Pay?" [Washington Roundup, July]. I'll bet that the companies pressing Uncle Sam to pay up sooner don't pay their larger accounts in less than 60 days. As a small businessman, I have experienced that the larger the company is, the slower it is to pay.

Leon Hunter
Dallas

An Ounce Of Prevention

It seems every time I read about labor issues or pending legislation in your magazine, the article is devoted to business people whining about how a proposed change will hurt or destroy their companies. These changes—increases in minimum wage, notice of plant clos-

ings, comparable-worth proposals, whatever—are universally derided as the end of free enterprise as we know it in the United States.

If it all sounds familiar, it's because business has been warning of doom-day since the advent of child-labor laws, the establishment of unions, etc.

My experience and education have taught me that legislated changes have almost always resulted from poor or unethical business practices that needed to be regulated. I ask the whiners: Have you contributed to your workers' or society's perceptions that inequities exist that make stricter measures seem necessary? If you conduct your business responsibly, treat your employees fairly and pay them a living wage, may-be constraints would not be called for.

I am in no way suggesting that all legislation and union activities are good and necessary, only that prevention is the best cure.

I would rather see articles that profile executives with the talent and vision to deal with work problems or who take active leadership roles in their organizations to prevent unfair practices.

Jose Carreno
Boca Raton, Fla.

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The Nation's Business

By Joan C. Szabo

Business Outlook

An Improving Trade Picture

The U.S. trade picture is brighter than it appears, say economic experts. They argue that the recent disappointing trade numbers don't tell the real story.

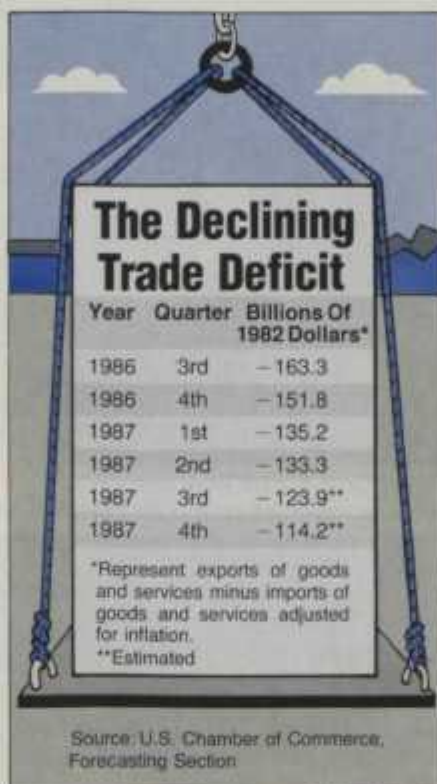
For one thing, the trade report is computed in current dollars—unadjusted for inflation. The most recent announcement showed that the monthly merchandise trade gap hit a record this summer. It widened to \$15.7 billion in June and then \$16.5 billion in July. Those numbers generated extensive speculation that the Reagan administration's long campaign for a substantial reduction in the deficit is not succeeding, and protectionists in Congress intensified their push for tough new trade legislation.

But a closer look gives a different picture. When adjusted for inflation, the trade deficit actually narrowed in the third quarter of 1986 and has since improved by nearly \$29 billion, says Graciela Testa-Ortiz of the Economic Policy Division of the U.S. Chamber of Commerce (see graph).

While critics of the administration's efforts to curb the deficit argue that its strategy of weakening the dollar has failed, Testa-Ortiz points out that the dollar's decline has already been reflected in the U.S. trade picture. The real volume of imports began to slow in the third quarter of last year, she notes. That development, combined with significant increases in exports, caused the deficit to narrow in real terms.

Analysts also note that the emphasis on the current-dollar trade deficit masks the healthy growth of U.S. exports that has greatly benefited the domestic industrial sector. Exports in July, for example, increased 20 percent from a year earlier.

In addition, the reduction in the inflation-adjusted trade deficit directly accounted for almost a third of the rise in real GNP in the first half, note economists of Morgan Guaranty Trust Company in New York.



Trade specialists at Morgan explain the current-dollar deficit figures in terms of what's been happening to prices of imports. They had been going up because of the weaker dollar, accelerating with the recent surge in the cost of oil.

The monthly figures are not seasonally adjusted, and they reflect the tendency for trade deficits to be larger during the summer.

There are, however, pessimists who fear that the recent figures show more than just rising import prices. They warn that Americans, buoyed by a pick-up in their own economy, may be buying more imports than they were several months ago.

The trade optimists say that the low value of the dollar will continue to work in favor of exports and against imports.

Testa-Ortiz expects real net exports

of goods and services to be running at a seasonally adjusted annual rate of \$114.2 billion in the last quarter of this year, compared with \$151.8 billion in the same period last year.

Happy Holidays, Sort Of

Retailers expect to ring up moderate sales gains this holiday season. "It won't be the best Christmas ever, but we won't see any drastic disappointments," says Rosalind Wells, chief economist for J.C. Penney Company.

Retailers typically post 35 to 40 percent of their annual profit during the Christmas season.

Wells looks for yuletide sales to be up 2 to 3 percent over last year. "Unless the economy is in a recession, the consumer comes through at Christmas," she says.

Joel Popkin, a retail-industry analyst, also anticipates a moderate showing this holiday season.

"Even though personal income hasn't grown as fast this year as it did last, the consumer balance sheet is still healthy," says Popkin, who heads a Washington economics consulting firm that bears his name.

Trends in consumer spending, which have been a major factor in fueling the recovery of the past five years, are being watched particularly closely these days for clues to the future of that recovery. Mounting debt and relatively small income gains are tempering consumer spending as the recovery matures, and the prospect of higher interest rates could temper sales of automobiles and houses.

Ironically, Popkin points out, higher interest rates could be good for Christmas sales because consumers foregoing purchases of big-ticket items would have more discretionary income for smaller purchases.

Businesses generally are also waiting to see how the reduction and eventual elimination of federal income tax deductions for interest payments will affect consumer buying attitudes.

Business Outlook

A Brighter Budget Picture

There is some encouraging news on the fiscal 1987 federal deficit, say administration and congressional officials. The final figure for fiscal 1987 is expected to be around \$157 billion, which would be \$64 billion under the fiscal 1986 deficit and nearly \$20 billion less than congressional and White House estimates

earlier in the year. But it also would be \$13 billion above the original target of \$144 billion set by the Gramm-Rudman-Hollings deficit-reduction law of 1985.

Analysts attribute the lower-than-expected deficit to one-time revenue windfalls, which produced \$15 billion. One windfall was the sale of federally owned assets. In addition, there was a \$20 billion surge in payment of taxes,

such as those on capital gains by taxpayers who sold assets late last year before rates increased sharply.

Rep. William Gray (D-Pa.), chairman of the House Budget Committee, told a recent breakfast meeting at the U.S. Chamber of Commerce that he believed a bipartisan compromise could be worked out between Congress and the administration on the 1988 deficit. ■

Small Business Report

Status Report On Smalls

The critical role of small business in maintaining the nation's economic health is documented in a White House report prepared for submission to Congress.

The unpublished report on the overall small-business performance in 1986 lists these findings:

- Employment in economic sectors dominated by small business grew nearly eight times faster than employment in sectors dominated by large businesses.

Industries with a preponderance of larger firms lost jobs in four of the eight Standard Industrial Classifications, while those made up primarily of smaller firms showed employment gains in all but one (mining) of the eight major economic sectors. The other sectors are construction, manufacturing, transportation, wholesaling, retailing, finance and services.

- Smaller firms now provide more than half of the jobs in the service sector, itself the fastest-growing segment of the economy.

At the same time, the report says that "broad measures of new business formation showed mixed results in 1986."

The 241,970 business starts in 1986 represented a 1 percent decline from the previous year, and the figure of 62,300 business failures last year was up 7.4 percent from 1985.

But the "mixed results" finding could be a result of the lack of authoritative figures on the number of businesses started and terminated in a given year. The White House based its business starts and failures on Dun & Bradstreet coverage. The report says that "many small companies too small to use formal credit markets are not



Outpatient health care was among rapid-growth industries last year.

PHOTO: JOHN RILEY—FOLIO

included in any reporting system" but describes the D&B data as "a useful indicator of change."

In dealing with specific sectors, it notes that, within industries dominated by small businesses, employment grew fastest last year in these sectors: amusement and recreation (up 12.2 percent); masonry, stonework and plastering (11.8); credit reporting and collection (11.6); outpatient health care (10.9); millwork and plywood (10.5), and medical and dental laboratories (10.1).

Noting that the business starts were most frequent in areas close to final

sales to the customer, the report says: "Small businesses in these industries are among the first to experiment with new products, new locations, new methods of service and new technologies."

How Often To Meet?

A White House Conference on Small Business would be held every four years, under a pending Senate bill, but the proposal has run into significant opposition from small business.

Such conferences bring representative small-business people together to make recommendations on what government should do—or stop doing—to



A useful new publication for small firms is *Risk Management—A Small Business Primer*. It outlines a process for examining the many risks facing a business and developing a management plan to meet

them. The cost is \$25 for U.S. Chamber members and \$40 for non-members. Order from Publications Fulfillment, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062. Request publication number 6970.

Two free booklets from the IRS: Publication 920, "Explanation of the Tax Reform Act of 1986 for Individuals," and Publication 921, "Explanation of the Tax Reform Act of 1986 for Business." To order, call 1-800-424-FORM.

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Small Business Report

improve the economic climate in which they function.

Testifying on behalf of the U.S. Chamber of Commerce, Lucille Wilson, vice president of Rob Wilson Motors in Malvern, Ark., told the Senate Small Business Committee that such conferences should be held as needed, not under a rigid schedule.

She told the committee: "There is no need for a conference until most of the recommendations of the prior conference have been acted upon." The 1986 White House Conference produced 60 formal recommendations and nearly all are yet to be implemented.

Frank S. Swain, the Small Business Administration's chief counsel for advocacy, also urged that conferences be held only when small-business owners felt a need for one.

Sen. Dale Bumpers (D-Ark.), chairman of the Senate panel, suggested that a conference be held every four to eight years. The committee has not yet decided on its final recommendation.

Lucille Wilson also urged a shrinking of the federal role in any future conferences: "I believe that the small-business community is ready, willing and able to bear more of the overhead expenses involved in the conference." ■

Washington Roundup

Labor's Looming Agenda

As the 100th Congress nears the halfway point, organized labor's legislative agenda continues to pose a tremendous threat to business and U.S. economic health, opponents say.

Appearing before a recent meeting of the U.S. Chamber of Commerce's Minimum Wage Coalition To Save Jobs, Labor Secretary William Brock reaffirmed the Reagan administration's opposition to a major component of that agenda—a plan to increase the minimum wage to \$4.65 an hour by 1990 and index it to average factory wages thereafter.

"Raising the minimum wage is the wrong answer to the problem. The issue is not minimum wage, but minimum skills," Brock said. Increasing the minimum wage would price individuals with inadequate education and job skills out of the job market, he said.

The secretary said that, while many legislators privately agree that a higher minimum wage may be counterproductive, "once the bill gets to the floor, members have trouble voting against it."

Here is a status report on other major proposals on the labor agenda:

Mandated Health Benefits. Hearings are scheduled in both the House and the Senate on legislation that would require employers to pay a substantial portion of comprehensive health-insurance premiums for all workers and dependents.

Comparable Worth. Legislation to create a panel to oversee a comparable-

Labor Secretary William Brock: The issue before the country is not minimum wages, but minimum skills.



PHOTO BY MICHAEL KATZ

worth study of the federal work force may soon face a vote in the Senate. Business leaders fear that passage of such a measure would eventually lead to a private-sector pay system based on the concept that different types of jobs require comparable levels of skills and responsibility and employers must compensate employees accordingly.

Occupational-Hazard Notification. Legislation to establish a new federal program to identify, notify, monitor and counsel employees exposed to occupational hazards is headed for a vote in both the House and Senate. Business argues that any such arrangement would duplicate existing mechanisms.

Double Breasting. Legislation to prohibit the practice of allowing construction companies with several affiliates to have both union and nonunion shops may face a vote in the Senate. The House passed it in June.

Census Forms On The Way

The U.S. Census Bureau says that preparations for the 1987 economic census are well under way. The census produces a detailed profile of the nation's economy. It takes place every five years and provides the foundation for such statistical measures as the gross national product, monthly retail sales and other economic indicators. Questionnaires will be mailed to 3.5 million businesses in late December. Completed forms are due by Feb. 15, 1988.

The smallest-sized firms, such as those with a single proprietor/employee, will not be sent questionnaires. The bureau wants to spare them an additional paperwork burden, says Angele Dehart Green of the Census Bureau.

The businesses canvassed by Census will be asked the number of their employees, size of their payrolls and the value of goods or services sold.

The summary results are helpful to individual companies, says Green. For example, businesses can use the census statistics to compare themselves with industry averages.

The economic census is a separate operation from the decennial census required by the U.S. Constitution and next scheduled for 1990. Although that count is primarily designed to determine the total number of residents by congressional districts, it produces other demographic data useful in business planning.

Pinpointing Burdensome Tax Laws

Are some federal tax laws harder to comply with than others?

The Tax Policy Center of the U.S. Chamber of Commerce is seeking information from businesses on specific tax laws they view as most burdensome.

The center is especially interested in finding out about laws that make compliance for smaller companies difficult. Those companies have long complained that tax compliance falls more heavily on them than on larger firms because they lack in-house accounting and legal staffs.

The Chamber tax center will analyze responses to identify the most troublesome laws, and the business federation will seek legislative reforms to ease or eliminate the compliance problems.

Write or call David Burton, manager of the Chamber's Tax Policy Center at 1615 H Street, N.W., Washington, D.C. 20062; (202) 463-5620. ■

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BUCKLE UP FOR SAFETY.

How To Find Under \$1 Million

By Roger Thompson

The phone lines have been busy ever since William E. Wetzel, Jr., established the nonprofit Venture Capital Network three years ago. The network operates a matchmaking

service for well-heeled individuals who want to sink money into start-ups. Wetzel estimates that such informal investing pumps over \$5 billion into new firms annually.



PHOTO: DEAN ABRAMSON

Two hundred and fifteen bankers did something out of the ordinary last spring. They gathered for a two-day conference in St. Louis to learn how to improve loan and other services to small companies—the first such event ever sponsored by the American Bankers Association.

"This [small business] is where the new business is coming from, where the new jobs are being created and where some of the most profitable [banking] relationships come from," says Deryl K. Schuster, vice president of the ABA's small-business committee and chief executive officer of the First National Bank of Liberal, Kan. The conference was such a success that it may become an annual event.

Says Mary Oliverio-Sansone, vice president for commercial banking with Bank of America in San Francisco: "It seems to be in vogue these days for

banks to be going after small business."

Even so, many entrepreneurs still go begging for start-up and expansion money for a variety of reasons, such as insufficient equity, collateral or cash flow. For this group, there is new hope on a couple of fronts.

First, venture-capital hot lines in 11 states are making it easier for entrepreneurs to link up with wealthy individuals interested in sinking money into new businesses (see box, Page 18). William E. Wetzel, Jr., the University of New Hampshire professor who has pioneered research in so-called business angels, estimates that they privately pump upward of \$5 billion a year into 15,000 to 20,000 small companies.

Second, states have jumped aboard the small-business bandwagon with an array of programs to promote economic development. "Small-business financ-

ing programs of various types are the hottest area in state economic development," says Miles Friedman, executive director of the National Association of State Development Agencies in Washington. More than half now offer some sort of venture-capital and loan-guarantee programs.

What does all this mean for small businesses in search of a cash infusion? Certainly not that the people with money are giving it away. It has always been tough for small firms to find debt and equity financing, and it remains so largely because small business is very risky business. Dun & Bradstreet Corporation, a major marketer of business information, reports that 61,232 businesses failed last year, most of them small.

Not surprisingly, the people who control the purse strings aren't going to loosen them for just any small-business

You can do it with good management, planning, careful searching and a little help from your friends.



owner who walks in the door. In fact, start-ups typically go without bank or investor backing. They rely instead on the owners' savings and money scraped together from friends and relatives.

Sooner or later, however, almost every small business that has survived the critical start-up period needs additional capital to establish itself more securely. The founders try to borrow money or latch onto investors willing to buy into the company. The vast majority seek less than a million dollars. In fact, sums less than \$1 million may be the toughest money to come by. Often the company has been successful enough to generate additional financing needs but has not yet acquired the assets, expectations and good will of a more established firm.

Even so, many banks apparently are trying harder than ever to accommodate these special demands because it makes good business sense. "I think it is easier now for small businesses to borrow," says Joseph A. Campanella, director of the corporate-finance department of the Koptis Organization, a Cleveland business-consulting firm. "What a lot of the commercial-banking community is discovering is that there is growth to be found in privately held companies."

The question for small-business owners is how to cash in on new financing opportunities. The nearly universal response they hear from bankers, consultants and business owners alike echoes the Boy Scout motto: Be prepared.

The chief problem, says Campanella, is that most business owners do not know how to ask for a loan. "Probably 70 percent of all the business owners who walk in to see a loan officer are unprepared," he says. Before you reach that stage, you should have developed a strategy for obtaining the loan you want. Here are some key components of a successful strategy:

Determine The Type Of Financing. Start by figuring what kind of financ-

Deryl K. Schuster, CEO of the First National Bank of Liberal, Kans., talks business with Tom Scott, whose power-equipment company in

Elkhart is constructing a building with a loan from Schuster's bank. Small business is profitable for banks, Schuster says.



PHOTO: LARRY FLEMING

ing your business needs: debt or equity. Borrowing money may drain a substantial portion of your firm's income into debt repayment. But small businesses typically prefer debt financing because it does not diminish the owner's control. And the tax structure treats debt favorably by allowing interest paid for a loan to be deducted as a valid business expense.

Equity financing—selling pieces of your company to investors—does not burden the books with loan repayments, but it does diminish your stake in the business.

Project Growth. After deciding on the type of financing, project your company's growth over the next 12 to 24 months. "Most bankers want to see a solid operating plan spelling out in detail how you will use the funds, what markets you are in, what the management is like, what the results of the

loan are likely to be and the strengths and weaknesses of the firm," says Daniel Morris, president of Morris Anderson Associates, a Glenview, Ill., management-consulting firm.

"Whether you are borrowing over a million or under a million, you have to supply the same information," says Schuster. "The difference is that major companies going after huge amounts have staff accountants, lawyers and marketing people who help with the process. In a small business, the owner has to do it all."

If you can't afford high-priced advisers, the shelves of book stores brim with books on crafting a winning business plan. The extra effort will pay off, says Schuster. "A key factor in applying for a loan is to present a complete and attractive package."

Demonstrate Management Effectiveness. The plan also must show suffi-

How To Find Under \$1 Million

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Carol Walcoff, who heads an Alexandria, Va., consulting firm bearing her name, advises business owners to shop for a bank just as they

would shop for other services. Not all banks are interested in small-business customers, she says.

cient collateral and positive cash flow. But in the final analysis, company management can make or break a deal. "A banker or investor can be convinced that a business has a chance of success, but if he doesn't believe in the people running it, he won't put money in it regardless of how good the idea," says Morris. "Management is 80 to 90 percent of the battle."

Shop For The Right Bank. Once you have a solid business plan in hand, where do you take it? You might start with the bank where you maintain personal accounts. But don't be surprised if you come up empty-handed. Not all banks are interested in commercial lending. Carol Walcoff found this out the hard way.

She launched an Alexandria, Va., consulting firm five years ago with personal savings and credit. She was in business for more than a year before her bank approved a 90-day unsecured business loan. Along with it came a bit of advice: Don't come back for more. "They said, 'Look, we're a consumer bank, not a commercial bank,'" says Walcoff.

The search for a new bank proved more difficult than she expected. "One bank told me to come back when I needed a \$250,000 line of credit," Walcoff recalls. "I've gone for a \$10,000 new-equipment loan and been asked to deposit \$10,000 in the bank before I could get the loan. I've made a presentation at several banks and never even gotten a call back."

The lesson is clear. "You have to shop around for the right bank," says Walcoff, who finally found the right match. "They're not all interested in small-business loans."

Don't Be Cowed. Even with a solid business plan and the right bank, you're not necessarily home free. Many small-business owners deal with branch banking officers who are not skilled in commercial lending, says Campanella. "You ought to deal with the highest level you can, someone who has lending authority and clout with the loan committee. For the average business borrower, dealing with the branch manager is dealing at too low a level." Campanella advises going directly to the bank's main office or lending headquarters.

When finally face-to-face with a banker, many tough, self-confident business owners turn out to have feet of clay, says Harley A. Rennhoff, a retired banker and author of *Get That Business Loan: Convince Your Bank-*



PHOTO: T. MICHAEL REZA

er to Say Yes (Pelican Publishing). "Even sophisticated successful business people are scared to death of bankers. As a result, they don't present their cases effectively, and they end up accepting terms and restrictions that are unfavorable."

Those who don't fall victim to "banker's mystique," says Rennhoff, stand a far greater chance of getting the money they need, and on the most favorable terms (see box, Page 20).

Rejection, however, isn't necessarily the end of the line. There are other approaches. One of them is equity for services, in which an entrepreneur

swaps pieces of a company for the services needed to get it into operation.

Al Behar went that route after failing to obtain a bank loan for the company he started 3½ years ago in Herndon, Va. He started Health Innovations, Inc., to develop and market a high-tech device called LifeSign that he says will help people who want to stop smoking.

LifeSign paces smokers through a gradual withdrawal program. The device registers their smoking patterns and then calculates a withdrawal schedule. During withdrawal, smokers are permitted to light up only when the device sounds a tone and displays a "do smoke" sign.

Behar, an engineer by training, isn't surprised that banks have turned him down. When he launched his company, he had only an idea and no experience in marketing consumer products. After a prolonged research-and-development phase, aided by a grant from the National Institute of Drug Abuse, LifeSign hit the market last spring. Behar plans to take it national as quickly as possible.

Like most entrepreneurs, Behar initially used his own savings, then tapped friends and colleagues for an additional \$145,000. But the real secret to his ability to operate on a financial shoestring during his start-up phase lies in equity-for-services swaps.

People who believed in Behar's idea offered their services in exchange for stock in the company. The engineers who developed LifeSign and the firms that manufacture and promote it all did

Other Sources Of Information

For a directory of SBICs and MES-BICs, write the National Association of Small Business Investment Companies, 1156 15th Street N.W., Suite 1101, Washington, D.C. 20005; (202) 833-8230.

For a list of venture-capital clubs, write the Association of Venture Capital Clubs, Mary Woita, 1313 Farnam, Suite 132, Omaha, Neb. 68182; (402) 554-8381.

For information on Small Business Administration loan guarantees or other agency programs, call the SBA's Answer Desk toll free at (800) 368-5855 between 8:30 a.m. and 5 p.m., EST. In Washington, dial 653-7561.

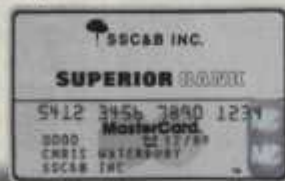
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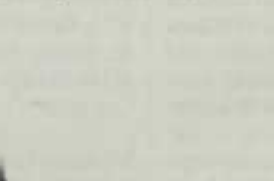
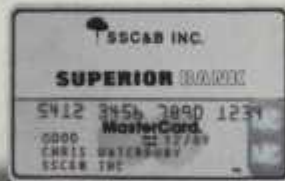
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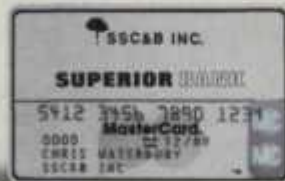
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COVER STORY

How To Find Under \$1 Million

Al Behar's invention, LifeSign, is a high-tech device to help smokers quit. Rejected by banks for loans, he relied on swapping stock for services to get his Herndon, Va., company going.

so in exchange for shares of the company.

Says Behar: "If you can't get people to invest services in exchange for equity, you should give up, because you don't have a product that is marketable." So far, he has swapped \$1.4 million in stock for services, about one third of the company's value.

Once LifeSign hit the market, Behar was able to attract a \$350,000 infusion from a Washington venture-capital firm. He's even optimistic about a bank loan "once we have established a solid cash flow."

Rejection for a conventional business loan can also be turned to something of an advantage by some small firms. Two rejections in cities of 200,000 or more, and just one in smaller ones, make you eligible to apply for a loan guaranteed by the Small Business Administra-



PHOTO: T. MICHAEL KEZA

tion—a lender of last resort. The loans are handled by banks, but guaranteed by the SBA for up to \$500,000 or 85 percent of the principal.

The interest rate is capped at 2½ percentage points above the prime rate. The guarantee means the bank gets its money from the SBA if the business defaults. This makes it possible for loan officers to apply somewhat relaxed standards in evaluating a guaranteed-loan application.

The SBA backed 16,766 loans last year for a total of \$2.1 billion. The agency was authorized to guarantee \$2.4 billion in loans in the fiscal year that ended September 30, and an equivalent amount has been requested in the fiscal 1988 federal budget.

Some 500 small-business-investment companies offer another government-assisted source of financing. SBICs are

Looking For An Angel?

A quarter of a million of the nation's wealthy contribute to a pool of venture-capital funds worth about twice the amount managed by traditional venture-capital groups. The secret is knowing how to find these people.

Here are the nonprofit venture-capital organizations that link such private investors with entrepreneurs.

Venture Capital Network, Inc.
P.O. Box 882
Durham, N.H. 03824
(603) 862-3556

Contact: William Wetzel, Jr., or Helen Goodman

Indiana Seed Capital Network
Institute of New Business Ventures, Inc.
One North Capital, Suite 420
Indianapolis, Ind. 46204
(317) 634-8418
Contact: David Clegg or John Ridder

Venture Capital Network of New York, Inc.
TAC
State University College of Arts and Science
Plattsburgh, N.Y. 12901
(518) 564-2214
Contact: Claire Barnett or Susanne Manell

Midwest Venture Capital Network
P.O. Box 4659
St. Louis, Mo. 63108
(314) 534-7204
Contact: Virginia Wojtkowski

Venture Capital Network of Atlanta, Inc.
230 Peachtree Street N.E., Suite 1810
Atlanta, Ga. 30303
(404) 658-7000
Contact: Hattie Harlow or Myric Thompson

The Computerized Ontario Investment Network (COIN)
Ontario Chamber of Commerce
2323 Yonge Street
Toronto, Ontario
Canada M4P 2C9
(416) 482-5222
Contact: James Carnegie or Marge Armstrong

Upper Peninsula Venture Capital Network, Inc.
206 Cohodas Administration Center
Northern Michigan University
Marquette, Mich. 49855
(906) 227-2406
Contact: Richard Anderson or Melissa Metzger

Investment Contact Network

Institute for the Study of Private Enterprise
University of North Carolina
The Kenan Center 498A
Chapel Hill, N.C. 27514
(919) 962-8201
Contact: Rollie Tillman or Sheila Ferguson

Heartland Venture Capital Network
Evanston Business Investment Corporation
1710 Orrington Avenue
Evanston, Ill. 60201
(312) 864-7970
Contact: Jack Bishop, Jr., or Thomas Parkinson

Mississippi Venture Capital Clearinghouse
Mississippi Research and Development Center
3825 Ridgewood Road
Jackson, Miss. 39211
(601) 982-6425
Contact: Clay Lewis

Casper College
Small Business Development Center
125 College Drive
Casper, Wyo. 82601
(307) 235-4825
Contact: Bill Bryant or Steve Elledge

University of South Carolina at Aiken
171 University Parkway
Aiken, S.C. 29801
(803) 648-6851
Contact: Robert Alexander

Bank lending is becoming much simpler because banks are discovering the growth potential of small firms, says Joseph A.

Campanella. The secret, says this Cleveland corporate-finance director, is knowing how to ask for a loan.

privately run but have access to federal funds by pledging to offer long-term debt or equity financing only to small businesses. Minority enterprise small-business investment companies (MESBICs) specialize in assisting socially and economically disadvantaged entrepreneurs.

The average size of an SBIC investment is \$180,000, according to the National Association of Small Business Investment Companies (see box, Page 16). A number of SBICs are subsidiaries of banks.

Russell Smith, president of Action Auto Rental, Inc., of Solon, Ohio, says he didn't know his bank had an SBIC until he and three partners went looking for funds to start their firm three years ago. They managed to land a \$1 million stock purchase from the bank's SBIC. Today the company has 330 employees and after-tax profits of over \$2 million. It works with auto-insurance companies to provide temporary rental replacements for damaged cars undergoing repairs.

No amount of planning and patient searching for the right banker will produce the loan you need if you don't have enough of your own money sunk in the business. As a rule of thumb, expect to supply about half the funds needed for a start-up. If you don't have sufficient equity, you need to find investors who will kick in the required amount. This is where business angels come in.

Angels comprise the most elusive source of major investment in American business. Finding them is largely a matter of having the right contacts. Wetzel's research indicates that they typically are people with net worths of more than \$1 million and annual incomes over \$100,000. Most are self-made. By his rough calculations, about 250,000 of the nation's most affluent individuals fit this category. They control a venture-capital pool of between \$25 billion and \$50 billion—about twice the amount managed by professional venture-capital firms.

"The typical firm financed by angels raises [a total of] about \$250,000 from three or more investors," says Wetzel. "The typical investor provides between \$25,000 and \$50,000 per firm, about half in the form of equity and half in loans and loan guarantees."

By contrast, roughly 600 professional venture-capital firms raised about \$4.5 billion for investment in 1986. The typical deal involves an investment of more



PHOTO: MIKE STEINBERG—BLACK STAR

than \$1 million, holding the total number of transactions each year to less than 2,000.

Howard Nifong, vice president of Apalachian Technologies Corporation in Charlotte, N.C., and his two partners unsuccessfully approached nine venture-capital groups before turning to angels. The trio left a high-tech outfit to start their own manufacturing company last year.

Nifong, who formerly worked for a Big Eight accounting firm, used his business contacts and referrals from friends to tap 14 well-heeled individuals for a total of \$750,000. In exchange, the investors got a 25 percent stake in the company. "It wasn't a hard sell," says Nifong. "We were asking a minimum investment of \$30,000 and succeeded on one out of four calls. One investor sent us to four or five of his friends."

Despite the economic clout of business angels, Wetzel concluded that the informal context in which they operate prevents money from flowing smoothly to start-ups and young firms. That's why he created Venture Capital Network, Inc., in July, 1984. The nonprofit organization is managed by the Office of Small Business Programs at the University of New Hampshire and operates as a matchmaking service for investors and entrepreneurs. Just as with more traditional matchmakers, there are no guarantees.

In its first two years, VCN arranged over 1,000 introductions involving over 200 entrepreneurs and 300 investors. While VCN does not track the outcome of those introductions, its reputation

for effectiveness has spawned 11 similar operations across the country and in Canada, with more on the way.

Venture-capital clubs also have sprung up across the country in an attempt to formalize networking between investors and entrepreneurs. The Association of Venture Capital Clubs now lists 67 such organizations (see box, Page 16). "And there are more springing up all the time," says Mary L. Woita, editor of the association's newsletter and assistant director of the Nebraska Business Development Center.

While investors look for big financial rewards, states have a different agenda when they invest in small business. Creation of new jobs and preservation of old ones rank at the top of state concerns. They also set social goals, such as boosting women-owned or minority-owned businesses.

This new emphasis on small businesses marks a shift in the thinking of economic-development agencies. In years past, they focused attention on attracting large industries offering hundreds of jobs to a local community—a strategy known as smokestack chasing. During the 1980s, however, employment among the nation's largest enterprises has shrunk by more than 1 million jobs while total employment has increased by more than 10 million—generated mostly by small companies.

Consequently, states are pouring more resources into "home-grown" businesses. Between 1981 and 1986, 25 states adopted small-business incubator

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legislation aimed primarily at helping high-tech firms get up and running. In 1986 alone, 14 states adopted legislation relating to venture capital, seed capital or equity financing, compared with 22 states between 1980 and 1985.

"States have realized there are tremendous potential rewards for building their home bases," says Miles Friedman of the National Association of State Development Agencies. "Some states even have programs to identify and train entrepreneurs."

For all the attention now lavished on small business, a major gap in financing remains. Long-term, fixed-interest loans are practically nonexistent.

"Even for a successful small business, it's very difficult money to find," says David M. Guernsey, president of Guernsey Office Products in Arlington, Va. He also served as moderator for sessions that developed recommendations on finance during the 1986 White House Conference on Small Business. Proposals to improve access to long-term, low-interest financing ranked near the top of 60 final recommendations submitted to Congress.

"The traditional source for long-term financing is your bank," says Guernsey. But the terms frequently work a hardship on borrowers. "The bank may give you a \$1 million loan but with a seven-year note and a floating interest rate. You may protest that the payments will kill your cash flow, but the bank says that's the best it can do."

Banks in fact aren't structured to make long-term, fixed-interest business loans, says Sally Loveland of the National Development Council, a nonprofit organization that helps state and local governments package long-term business loans. "Banks have to keep their assets liquid," says Loveland. "That means they do short-term loans with an interest rate tied to the prime rate. But when a small business is making an investment in a plant for 20 years, it doesn't want to pay back the loan in three or seven years."

"This is an area where we ought to have a public-policy solution," says Loveland. The National Commission on Jobs and Small Business came to the same conclusion in the report it submitted to the President last spring. The report calls for "federal, state and local governments [to] join in partnership with the private sector to significantly increase the volume of long-term, fixed-interest, small-business loans."

Julian H. Gingold, head of a presidential commission on small business, maintains that smalls can find money in private markets without government aid.




PHOTO BY JOSEPH

But Julian H. Gingold, director of another government panel, the Presidential Advisory Commission on Small and Minority Business Ownership, thinks

differently. "In a free-market economy, there are a lot of people who can't hack it," says Gingold, a senior vice president for Dean Witter Reynolds. "They run to their congressmen and belly-ache. All you ever read about is belly-aching. You don't read about people who found the money they need."

Gingold supports a commission proposal, now awaiting President Reagan's approval, to establish a Washington-based federal hot line to help business owners find private sources of financing. Gingold points out that private financial institutions are becoming more attuned to the needs of small companies. "We've been noticing a drastic shift in thinking," says Gingold. "The pools of money that have opened up are just fantastic."

On both counts, small business is a winner. Whatever the source, the best bottom-line advice remains the same. Says Gingold: "It takes planning and a proper approach to be successful."

 To order reprints of this article, see page 54.

Test Yourself For Banker's Mystique

Banker's Mystique is the complex of misunderstandings and erroneous assumptions that often prevent entrepreneurs in search of financing from making straightforward, effective presentations to a bank. This checklist will tell you to what degree, if any, you are affected by it.

In considering whether to file a business-loan application with a bank, have you ever had any of these attitudes?

1. If I tell my banker the truth, he'll probably turn me down.
2. I need the bank, but it doesn't need me.
3. If the bank turns down my loan request, then there must be something wrong with the project.
4. My best approach is to turn the tables on my loan officer, using intimidation against him.
5. I don't need to worry about the details of my business plan until after my loan is approved.
6. What the banker doesn't know about the weak points in my proposal won't hurt me or him.

7. I'm not smart enough to deal directly with the lender, so I had better hire a local expert to represent me.

8. Financial institutions in other parts of the country wouldn't possibly consider my loan. My only chance for a loan is with the local bank.

9. Once I get a loan commitment from my lender, all of my problems will be solved.

10. I had better not attend a meeting with the bank without taking a crowd of consultants and supporters.

11. Government loans are cheaper and can be obtained more quickly than conventional loans. Government red tape is no real problem, because political contacts can clear the path.

12. I am certain that my loan application will be approved, because the bank president loved the proposal and promised to present the request personally to the loan committee.

SCORING: If you agreed with even one of these statements, you are still a victim of Banker's Mystique.

From *Get That Business Loan: Convince Your Banker to Say Yes*, by Harley A. Rennhoff (1987). Reprinted with permission of Pelican Publishing Company.

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IBM Keyboard	Enhanced or Space Saving
Operating system	IBM DOS 3.3

*Model 25 has one full-size and one eight-inch expansion slot.



Pay Now, Fly Later

By Albert G. Holzinger

Which of The Lines do you like least when you fly? The serpentine one at the ticket counter? The slow-moving one at the check-in gate? How about the one the plane itself sits in waiting to take off? The airborne line of planes awaiting clearance to land? Or the anxiety-causing one around the baggage carousel, where you find out whether your luggage has arrived with you?

Business and other travelers have been registering protests about such lines in record numbers lately. The business flyers are complaining that long delays in scheduled flights are imposing high costs in terms of disrupted plans, missed appointments and deadlines and highly paid personnel idled for many extra hours or even days.

Air travelers—nearly half of them business travelers—save \$6 billion a year (in 1977 dollars) as a result of competitive pressures arising from deregulation, according to the Brookings Institution, a research organization.

But the business fliers and the general flying public could save even more if the lines were curtailed. The costs of delays are estimated by the FAA at \$3.2 billion annually (in current dollars).

Why has the air-travel system run into such turbulence? What can the airline industry and government do to solve the problems?

The first step is to recognize just what the underlying problems are and what is causing them. That might not be as easy as it sounds.

Some critics, for example, are quick to charge that, as a result of airline deregulation, maintenance and safety of aircraft and quality of service have declined.

William F. Bolger, president of the Air Transport Association (ATA), says, however, that "airline-caused delays only account for one of six late departures and arrivals." That one delay, he adds, results from mechanical difficulties, delays in boarding passengers and the like. The cause of the other five is most likely airport congestion—there are simply not enough airports or spaces at existing airports to accommodate the massive increase in airline travel over the past few years (see chart).

To dampen the public outcry against



PHOTO: T. MICHAEL KEZA

Passengers On Scheduled Airlines

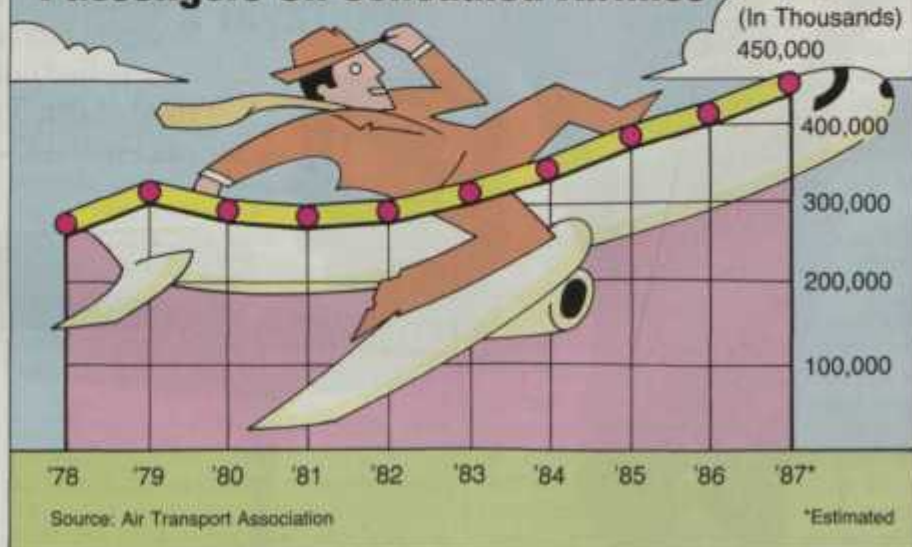


CHART: WARREN REMER

chronic delays, airlines are modifying departure and arrival schedules at the most congested airports.

However, the lines will abate significantly only when the White House and Congress stop playing budget games, most industry and government experts insist.

The federal government must begin spending the money already collected from aviation users to improve airports

and build new ones, those sources agree. Current airports can't possibly satisfy the inexorable demand for airplane takeoffs and landings stemming from deregulation that has resulted in millions of new passengers and many new airlines.

Airline deregulation was approved by Congress in 1978 and phased in during Ronald Reagan's first term as President. In the wake of deregulation, the

Complaints about airline service will be answered only when Congress and the administration loosen the purse strings on tax money already collected from travelers.

How To Ease The Frustration

"There's not really very much a traveler can do [to prevent air-travel inconveniences] except plan as much as possible to minimize exposure," warns Phil Davidoff, president of Belair Travel Consultants of Bowie, Md., and an officer of the American Society of Travel Agents.

Suggested planning includes:

Reserve far ahead. Don't risk discovering that seats remain only on a flight whose scheduled arrival time is an hour before the start of a key meeting.

Travel off-peak. Delays most often occur at the beginning and end of holiday periods, Friday and Sunday evenings, and on weekday mornings, late afternoons and early evenings.

Avoid highly congested airports. Even if your flight takes off and lands in off-peak periods, you can still be delayed if you have a connecting flight at the wrong airport at the wrong time of day. These airports include Hartsfield in Atlanta, Logan in Boston, O'Hare in Chicago, Dallas-Fort Worth International, Stapleton in Denver, John F. Kennedy and LaGuardia in New York and San Francisco International and Los Angeles International.

Carry the pocket edition of the Official Airline Guide (OAG) or other comprehensive flight schedule. The OAG, published monthly, costs \$51 a year (Call 800-323-3537). Don't wait in line for a swamped ticket agent—use the

OAG and a telephone to make alternative plans.

Call about possible delays before you leave for the airport. Early delays often ripple through the system all day. The Federal Aviation Administration notifies airlines four or more hours in advance about likely delays due to major weather systems.

Allow time for delays. Arrive the night before your meeting when practical. The cost of a hotel room is almost always lower than the cost of a business deal lost to a missed meeting.

Minimize stops and connections. If you must change planes, stick with only one airline. Some airports are so large that the gates for different airlines are marathon distances apart.

Arrive and check in early. Late arrivals are most likely to be bumped due to overbooking.

Identify your luggage. Carry as much as possible on board. Pack a complete itinerary so baggage can be forwarded. Lock bags to help avert accidental opening during handling by airport employees.

Make a detailed list of luggage contents. Airlines insure luggage up to \$1,250 a bag if you can prove the value of its contents. If you must travel with valuable items, carry them on board or buy supplemental insurance.

number of commercial air travelers increased from less than 275 million in 1978 to an estimated 450 million in 1987, according to the ATA, the trade association of the airline industry. And the number of airline users is projected by the FAA at more than 600 million a year in the early 1990s.

"We really never dreamed the industry was going to grow so fast" following deregulation, says Matthew Sco-

cozza, an assistant secretary of transportation.

"The air-travel infrastructure was built for a world that no longer exists," says Bolger. "In that world, all passengers want to fly in neatly staggered intervals during the day, and most just stay home so they won't overcrowd airports."

More than 25 U.S. airports already are badly crowded and, if demand

grows as projected, 65 major airports will be overloaded before the year 2000. So says the Aviation Infrastructure Roundtable (AIR), a coalition of air-transportation system operators, users and builders, including the ATA and the U.S. Chamber of Commerce.

"Although much can be done to improve existing airports, patching airports will not solve the over-demand problem," says Richard Judy, director of aviation of the Miami International Airport and chairman of AIR.

"At least 10 new airports need to be constructed over the next decade," estimates J. Donald Reilly, executive director of the Airport Operators Council International, which represents governmental bodies that own and operate airports.

"Congress, working with localities, must [help] in facilitating planning and construction of 16 or so 'distribution' airports in places away from population centers and with predominantly good weather," Judy contends.

But airport construction is expensive and getting more so every year. Building one gate at an existing airport can cost as much as \$2 million, according to James A. Brough, executive director of the Birmingham, Ala., airport authority.

Dallas-Fort Worth International Airport, the last major airport built in America and the third largest, was completed in 1974 and cost \$800 million. A planned replacement for Stapleton Airport in Denver will be only the sixth largest when completed in 1992. And it will cost an estimated \$2.7 billion.

Unlike most other federal programs, however, money is available for airport improvements and airport construction projects of that staggering magnitude.

Since 1970, the federal government has imposed an 8 percent excise tax on airline tickets. This money and other aviation user fees, currently about \$4 billion a year, accumulate in the Airport and Airways Trust Fund until they are spent by Congress.

But because congressional appropriations for airports have lagged, the fund has a balance of nearly \$5.7 billion. "Last year, the government spent \$1.5 billion less than it collected," laments Bolger. "At present spending rates, the

MANAGING YOUR BUSINESS

Pay Now, Fly Later

Dick Judy, spokesman for a coalition of airport operators, users and builders, contends that building more

than a dozen airports is the only way to end lines such as this one at Los Angeles International Airport.



PHOTO: PAT CONDELL

trust fund will have \$10 billion stashed away in 1989 and \$12 billion in 1991."

The Reagan administration and Congress are using the trust-fund buildup, AIR contends, to camouflage the magnitude of the budget deficit.

The President and Congress have been claiming balances in the various federal trust funds as budget "savings," even though the money can be spent—and ultimately must be spent—only on relevant projects.

"When the name of the game in Washington is deficit worrying, as it has been for some years now, and when political careers may depend on the public's impression that the deficit is being handled, then politicians are going to want to see trust-fund dollars coming in, not going out," says Bolger.

Separate House and Senate bills supported by AIR would mandate long-



PHOTO: INK WHEELER—BLACK STAR

term spending, at accelerated rates, of money in the Airport Trust Fund for airport improvements and construction.

To assure that the money air passengers put into the fund is used for the intended purposes, other industry-backed bills would remove the trust fund from the federal unified budget. The bills would also exempt the fund from spending cuts mandated under

the Gramm-Rudman-Hollings deficit-reduction law.

"The help that air travelers need is already paid for," says Bolger. "Uncle Sam has the money in the vaults of the Treasury, waiting for a signal to invest it in known solutions." ■



To order reprints of this article, see page 54.

Flying's Safer Than Ever, But Stress Is Increasing

Despite recent dramatic increases in air traffic, the skies are safer statistically now than they were in the regulated era of air travel.

Fatalities per 100,000 hours flown declined to .92 in 1986, from 1.72 in 1978, according to the Federal Aviation Administration.

The August 16 crash of Northwest Airlines flight MD80 during takeoff from Detroit Metropolitan Airport, which killed 154 people, was the first life-taking commercial accident in 23 months.

But actual crashes are one thing, and near mid-air collisions, missed airports

and runways and potentially disastrous air-traffic errors are another. Like airport lines, the widely reported rash of such frightening incidents is an indication how close the air-travel system is to its breaking point.

Some stress is attributable to a continuing shortage of air-traffic controllers in the wake of an illegal 1981 strike.

President Reagan's firing of 11,300 striking controllers left the FAA with only one third of its work force.

Former Transportation Secretary Elizabeth H. Dole approved the hiring of 955 controllers, but even when these

recruits join controllers trained during the six years since the strike, understaffing will continue.

The Air Transport Association estimates that, given passenger growth since 1981, as many as 3,000 controllers are needed in addition to the approximately 13,600 now at work.

The FAA launched a 10-year, \$12-billion National Airspace System Plan early this decade to improve safety by making air-traffic control less "labor intensive." Provisions will allow purchase of state-of-the-art computers and other high-technology safety devices.

But implementation of the plan is at least two years and \$1.5 billion behind schedule, according to Rep. Norman Y. Mineta (D-Calif.).

The delay, Mineta says, has been caused largely by funding slowdowns.

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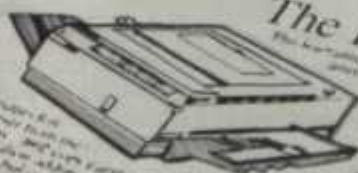
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Other copiers.

The Xerox 1012 Marathon.

No Aliens, Lots Of Paperwork

By Harry Bacas

We don't have any aliens here," says W.A. Marsh, a Beaumont, Tex., equipment wholesaler. "But we do have a bunch more paperwork to fill out because of that new law."

Marsh is talking about the Immigration Reform and Control Act of 1986. So are a lot of other small employers these days. Under the law, a company can be fined up to \$1,000 if it has not completed a special form for every new employee. The Immigration and Naturalization Service has already begun checking companies to see whether this paperwork has been done.

Since June 1, employers have been required to ask all job applicants to show credentials indicating they are (a) citizens, (b) aliens who have INS permission to work in this country or (c) aliens applying to become legalized. Credentials of anyone hired since Nov. 6, 1986, must have been checked by September 1, under the new law.

In both cases the employer must fill out the form (INS I-9), get the employee's signature and keep it on file for at least three years after the employee has left the company.

The service has mailed out 6.6 million copies of a handbook to businesses. It contains the forms (suitable for reproduction) and instructions on how to fill them out.

"I have yet to receive any notice or forms from the INS," says Marsh, whose firm, Automatic Pump & Equipment Company, has 22 employees. The company sells centrifugal pumps for oil refineries and municipal wastewater systems.

"I got my forms from the National Association of Wholesaler-Distributors," Marsh says. The association sent its members a legal brief on the new law and a sample of the form; Marsh photocopied the sample.

Marsh says he had to check documents on two salesmen, one who works out of the home office and one from a field office who was in Beaumont for training. He says, "One man had to send off to Illinois to get his birth certificate, and neither one had a Social Security card. One went downtown to reapply for a card, and the other finally found his."

"And after all that, only one of those



PHOTO: T. MICHAEL KEZZA

INS Commissioner Alan C. Nelson hopes employers will learn from available handbooks what the new law requires of them.

guys is still with us. The newer one, although he was experienced, wasn't selling, and we parted company."

INS Commissioner Alan C. Nelson says Marsh's case is not untypical. He says his inspectors are finding that most businesses, even if they haven't received the INS information kit, "are generally aware of the law and its purposes and are willing to cooperate."

INS inspectors have already visited thousands of businesses, but the service, at least for the time being, is in what Nelson calls a "flexible stance."

That means that until next June 1, investigators making their first call on a business will mainly "provide information and consultation."

On a return visit, however, if the employer can't produce completed I-9 forms for all new employees, they will issue a warning citation. On a third visit, they will start levying fines of \$100 to \$1,000 for each paperwork violation and fines of \$250 to \$2,000 for each unauthorized worker hired.

By last month, investigators had issued fewer than 100 sanctions and only a few fines. They had called on about

The new immigration law is hassling more small-business people than illegal aliens.

250,000 businesses, Nelson says, "and we're trying to visit a million by June."

Will the investigators concentrate on industries like construction, hotels, food and cleaning services and on border areas, like Texas and California? "Generally, yes," says Nelson.

"You could say that this law is like the tax laws: It applies to everybody, but you focus on those people that might be higher risks. Obviously we're concerned with those who hire illegal aliens or who might, and that's the area where we'll spend most of our enforcement efforts."

Despite his assurances, the paperwork requirements of the new law are giving a lot of grief to small employers. "Those forms don't make much sense for people here in the heart of the country," says Don S. Warner, president of Automatic Sprinklers, Waterloo, Iowa. "But I guess we've got to fill the sucker out."

Warner's office manager, Connie Cookinham, did most of the paperwork for the company, which sells fire-sprinkler systems for new construction in several states. She checked the records of the firm's 40 employees and found that four people hired since last November would fall under the regulations.

Says Cookinham: "I sent them letters

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ABOVE AND BEYOND

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No Aliens, Lots Of Paperwork

first. I explained the regulations and asked them to send me copies of their driver's licenses and Social Security cards or birth certificates." Many of the firm's employees are installers who live and work out of town.

Because of a lack of work, Cookinham says, three of the four employees from whom she was seeking documents were laid off before they could comply.

She adds, "then the wife of the fourth man said she wasn't going to send me her license; she had misunderstood my letter. I wrote again saying it was his license we needed, and only a copy of it.


"I wrote more than once, and they ignored me and ignored me, until finally he got laid off too."

Cecil Ann Clinard, president of Plemmons & Irvin Wholesale Produce, Winston-Salem, N.C., has filled out about 10 of the I-9 forms so far. Her record is a little better than Warner's. Three of those employees are still with her.

She paid an attorney \$100 for advice and assistance in complying with the new regulations. The attorney also got copies of the forms for her.

Some of her employees or those she has wanted to hire have lacked proper credentials and had to be told to come back when they had them. She even went to Charlotte to help one employee get his papers.

"What bothers me," says Clinard, who inherited the business from her father last year, "is that you go through all that, and then the people stay only two or three weeks and go."



Instructions:
Examine the documents from List A and List B and check the appropriate boxes.

List A
Documents That Establish Identity and Employment Eligibility

- ☐ 1. United States Passport
- ☐ 2. Certificate of United States Citizenship
- ☐ 3. Certificate of Naturalization
- ☐ 4. Unexpired foreign passport with attached Employment Authorization
- ☐ 5. Alien Registration Card with photograph

List B
Documents That Establish Employment Eligibility

- ☐ 1. Original Social Security Number Card (other than a card stating it is not valid for employment)
- ☐ 2. A birth certificate issued by state, county, or municipal authority bearing a seal or other authentication
- ☐ 3. Unexpired INS Employment Authorization (Specify form: _____)

Document Identification

Expiration Date (if any)

CERTIFICATION: I attest, under penalty of perjury, that I have examined the documents presented by the above individual, that they appear to be genuine and to relate to the individual named, and that the individual, to the best of my knowledge, is eligible to work in the United States.

Signature _____	Name (Print or Type) _____	Title _____
Employer Name _____	Address _____	Date _____

Form I-9 (Rev. 07-87)
OMB No. 1545-0046

U.S. Department of Justice
Immigration and Naturalization Service

Not all businesses have been so prompt to comply with the regulations. Nearly half the small companies interviewed for this article said they hadn't gotten around to it yet.

J.G. Velasco, a partner in Service-master, a commercial-cleaning franchise in El Toro, Calif., says more than half his 19 employees are Hispanics, but he hadn't heard from the INS yet or tried to get any forms.

"You can't afford to be standing in line at some downtown office for four or five hours instead of running your business," he says. He says he hopes to learn more about complying with the

law at the next monthly meeting of his franchise association.

Meanwhile, the INS is steadily increasing the tempo of its activities to enforce the employer-sanctions part of the law. It is installing a random-audit system to assist its investigation of employer compliance.

The service, with a budget of more than \$1 billion, will have 16,000 employees by next year, including 1,700 investigators.

"Next year we will spend roughly half our investigative time in employer sanctions," Commissioner Nelson says.

In addition, agents of the Labor Department's Employment Standards Administration, who make 60,000 workplace inspections of their own each year, have been instructed to also check for immigration forms. They will notify INS if an employer doesn't produce the required documentation or there is any evidence of hiring discrimination or document fraud.

When the Labor Department agents visit, checking for potential wage and hour or affirmative-action violations, they arrive unannounced. INS inspectors, on the other hand, have to give three days' notice before coming to check an employer's records.

Commissioner Nelson says business people should not fear the enforcement effort. He says: "Our goal is not to penalize anybody. It's to keep American employers from hiring illegal aliens." ■

For Help With That Law

Assistance is available from several sources to help employers cope with the new Immigration Reform and Control Act.

A 32-page booklet called "Checking IDs: A Guide for Employers" is published by the Federation for American Immigration Reform, 1424 16th Street, N.W., Suite 702, Washington, D.C. 20036, or phone K.C. McAlpin at (202) 328-7004 for details.

A software program called "IRCA-Minder" for personal computers is published by Inside Resources, Inc., 1401 Walnut Circle, Carol Stream, Ill. 60188; (312) 830-5220.

Copies of the 18-page INS Handbook for Employers, which includes the I-9 form, are available from Government Printing Office stores in most cities or by writing to local Immigration and Naturalization Service offices listed in the government pages of the telephone book.

The most complete guide is a 60-page handbook, "The New Immigration Law," published by the U.S. Chamber of Commerce. It contains a summary of the law with questions and answers, a discussion of anti-discrimination protection, the I-9 form, photographs and descriptions of documents to be used for verification, and a list of INS offices. It is order No. 7009 from Publications Fulfillment (RKVL), 1615 H St., N.W., Washington, D.C. 20062. Or call (301) 468-5128.

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Driving Passions

By Bob Gatty



PHOTO: CAMERON DAVIDSON

In the '60s, Ken Elder was a consultant on the internal design of gasoline-driven engines. He was bored.

"My wife, Judie, and I just decided we wanted to go into business for ourselves," he says. In 1970, the Elders bought a Thrifty Rent-A-Car franchise near Washington's National Airport.

"We paid \$75,000 for our franchise, and everybody said I was a real rube coming in out of the sticks" for paying that much, says Elder. He started with 30 cars and first-year revenues of about \$75,000. Today, Elder's Welcome Corporation controls 24 Thrifty locations with 1987 sales of \$16 million.

"Maybe I overpaid," Elder says. "Now it doesn't matter."

Elder's experience as a franchisee in the car- and truck-rental business is typical. The U.S. Department of Commerce estimates that the industry will generate \$6.5 billion in sales this year—15 percent more than the \$5.6 billion total for 1985. The number of locations went up 2.6 percent from 1985 to 1986, to a current total of 11,520 locations.

With more rental outlets available to the consumer, there is increased competition for a share of the market. At the same time, the market seems to be growing.

Domestic travel is up strongly, providing an increased customer base for rental-car companies. The U.S. Travel

Some friends said Ken Elder paid too much for his Crystal City, Va., Thrifty Rent-a-Car franchise. They don't say that any more.

Data Center, the travel industry's research group, reports that during the first quarter of 1987, business and convention travel increased 15 percent over the same period last year.

One result of the increased demand has been stabilization of rental prices. As recently as two years ago, even the major car-rental companies were engaged in price wars, with offerings of new cars at \$19.95 a day not uncommon. Now those wars are generally over.

That may be good news for companies like Ugly Duckling or Rent-A-Wreck, which focus on the economy-minded car renter, since the majors seem to be moving away from that segment of the market.

Tom Duck, Sr., started Ugly Duckling in the mid-'70s with \$10,000 that he and his wife, Junia, had saved. He began renting used cars for \$4.95 and a nickel a mile. Last year gross rentals exceeded \$60 million from over 600 locations.

Such niches provide opportunities for franchises in one segment of the market, because growth has topped out for

Franchisees and franchisors in the car-rental business have a growing market, but lots of competition.



PHOTO: RENE BHERET-FOLIO

Donald Marks heads Westwood, Calif.-based Rent-A-Wreck car and truck rental. The secret to success is finding a niche, he says.

the major companies. Hertz licenses about 200 franchisees, many of whom have more than one outlet. Richard Hollenbeck, vice president of franchise operations, says most of the markets that Hertz is interested in are covered by either franchisees or company-owned operations.

One of Ugly Duckling's competitors is Rent-A-Wreck, founded in 1973 in Los Angeles. Today, Rent-a-Wreck Chief Operating Officer Donald B. Marks says the Westwood, Calif.-based company has more than 300 locations operated by 280 franchisees. The company focuses on local rentals. "Anything in the local market is our niche," he says. The initial franchise fee ranges from \$3,000 to \$50,000, depending on the market.

For those franchisees and franchisors who find the right niche, the car-rental business looks better than ever. "The more competition there is, the bigger the whole rent-a-car pie will be," says Thrifty's Ken Elder. "I'm confident we will always be able to maintain our own little sliver of the market." ■

What Makes a Consultant Successful?

America has been called "The Land of Consultants." Over 400,000 are engaged in that profession. Yet only 11% of the consultants in this country earn more than \$50,000 per year, according to IRS figures. And unfortunately, most consultants struggle just to get by.

By contrast, the really successful earn well over \$100,000 per year. And earnings of \$250,000 per year and even more are not uncommon. Four skills set apart the super successful:

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 3. **Profiting** from your efforts.
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The author, Howard Shenson, is America's most recognized authority on consulting. In his seminars and books, he has helped over 52,000 consultants improve their practice. He and his work have been featured in more than 400 newspaper and magazine articles and on more than 225 radio and TV news and talk shows.

The *Complete Guide to Consulting Success* is a remarkable book. You simply must have it if you are a consultant ... or plan to become one. Not only is it filled with useful information, you also get ready-to-use forms agreements and worksheets. Worksheet forms will help you determine your best strategies and the contract and agreement forms will help protect you legally.

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Small-Business Confidence: Looking Good At Home

By Herbert S. Braun, C.P.A.

Small-business executives are more confident about the financial outlook for their own companies than they are about the overall economy, according to the latest *Nation's Business*-Ernst & Whinney survey.

Though an increasing number of small-business owners anticipate hiring workers to keep pace with demand, concerns about inflation, interest rates and the possibility of an eventual recession have risen sharply.

Optimism about their own companies appears to reflect the executives' confidence in their management abilities and in their understanding of the marketplace.

The semiannual survey was commissioned by Ernst & Whinney for *Nation's Business* and conducted by Angell & Company, Inc., an independent marketing-research firm. Telephone interviews were conducted with 500 chief executives of companies with annual sales up to \$40 million. The CEOs were chosen at random from a statistically representative sample of U.S. companies.

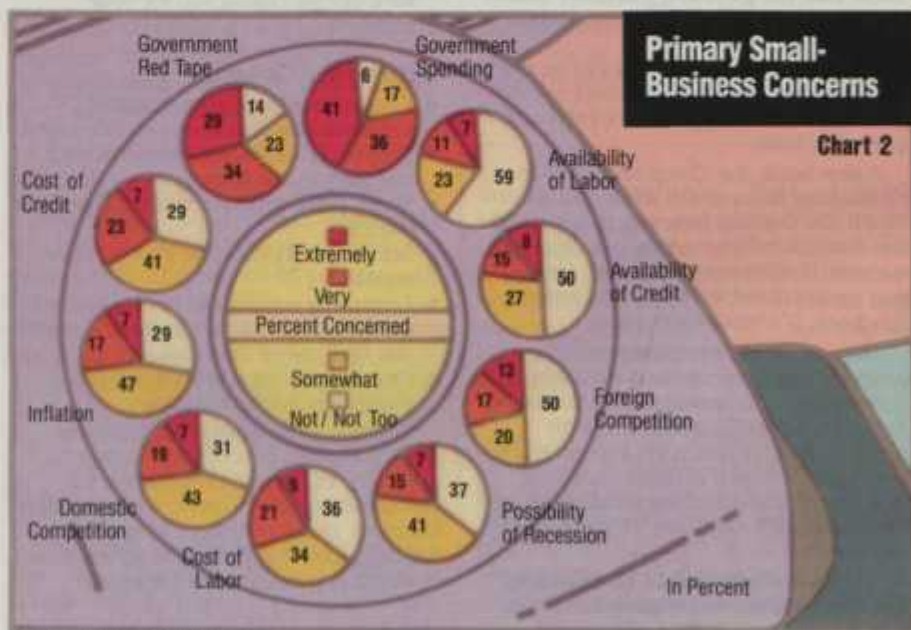
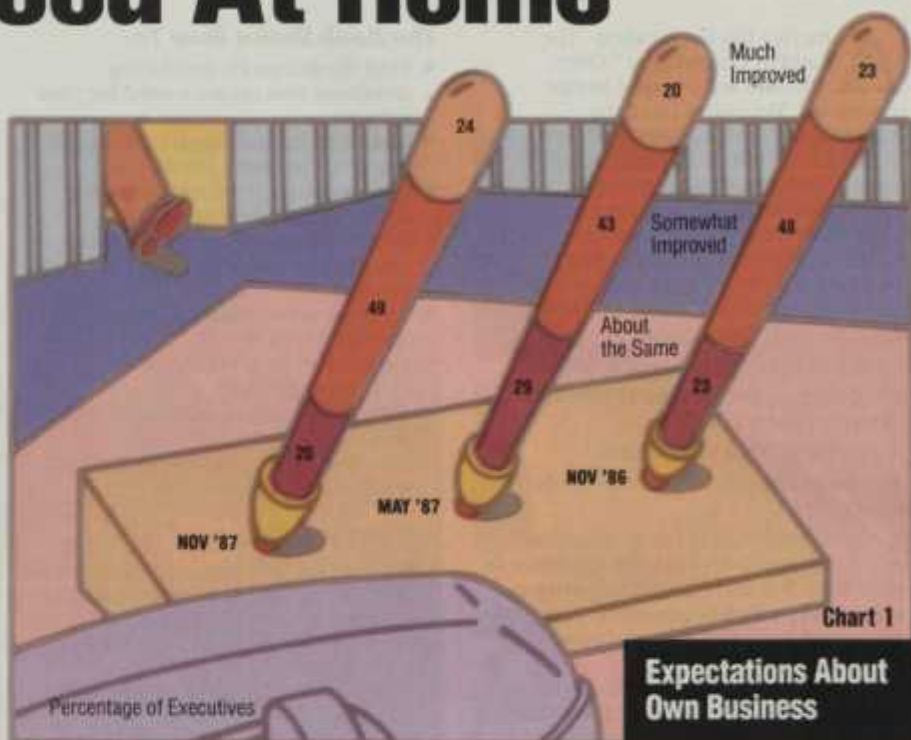
Most of the executives surveyed are in the 35-to-54-year age group, and nearly half are paid more than \$100,000 annually. About 11 percent have incomes over \$200,000. Nearly three fourths work more than 50 hours a week, and 10 percent work over 70 hours a week.

Net Operating Results

The CEOs remain generally optimistic about their companies' net operating performances, with 73 percent expecting their results to improve in the next year. This is an increase over six months earlier, when 63 percent of their counterparts predicted net operating results would be improved, but it is about the same as a year earlier (see chart 1).

Another indication of optimism among the CEOs is their rising inclination to expand employment. Asked if they intend to increase the number of employees at their companies, 52 per-

Herbert S. Braun, a partner in Ernst & Whinney, is national director of its services for privately owned and emerging businesses.



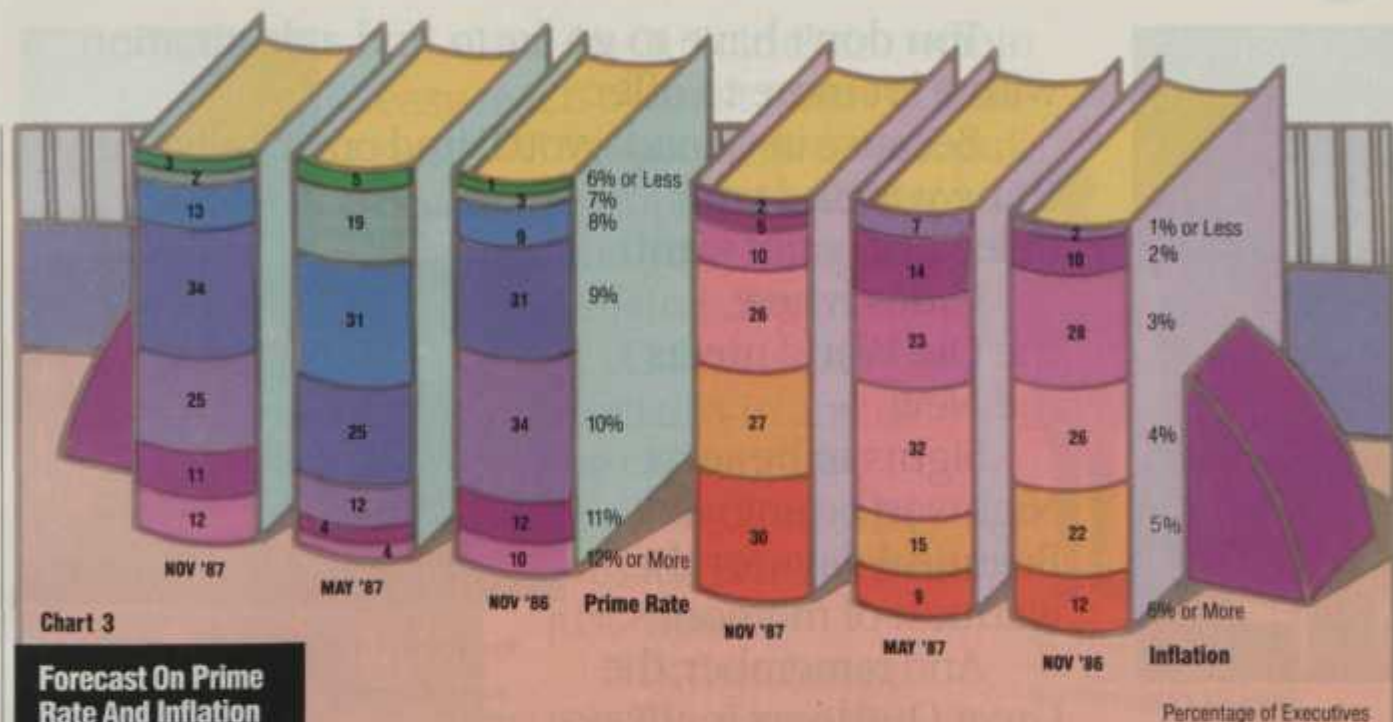
cent said they plan to do so. A year earlier, only 42 percent said they expected to increase employment.

Of those who believe their net operating results will be much improved, more than half attribute the improvement either to internal operations (such as reduced overhead and expenses), to better management and improved efficiency or to such factors as new and expanding markets.

"I expect our net operating results to be improved next year mainly because of more aggressive marketing and expanding our customer base," says William G. Cunningham, president of Alco Spring Industry in Chicago Heights, Ill., designers, manufacturers and marketers of hot-wound coil springs and heat-treated steel parts.

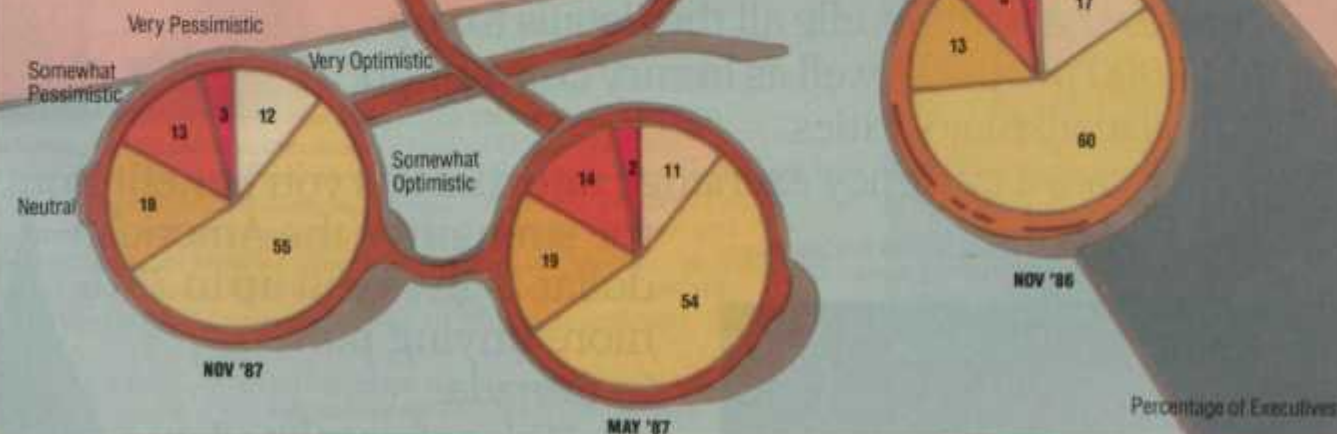
Says Terrance Fulwiler, president of Wisconsin Label Corporation, Algoma,

The third semiannual Nation's Business-Ernst & Whinney survey of heads of small businesses finds uncertainty about the economy, tempered by faith in their individual companies' prospects.



Expectations About National Economy

Chart 4



Wis., which prints pressure-sensitive labels: "We've been expanding our operations beyond our own region and getting more national over the past couple of years. We've expanded the area that we service and found that we were able to give good service and therefore expand our business by expanding our territory."

Ross Hurst, president of Hurst Stores, Inc., general merchandiser and

retailer in St. George, Utah, says: "Our emphasis isn't as much on increasing sales as it is on improving margins and reducing costs."

The General Economy

The ranks of those who are at least somewhat optimistic about the economy have decreased over the past year from three fourths to two thirds of the CEOs (see chart 4).

"I'm only mildly optimistic about the economy," says Eugene B. Paul, president of Motor City Plastics Company in Dundee, Mich., which specializes in packaging for the cosmetics industry. "There are a lot of factors no one can predict with any certainty—any one of which could change the economic outlook."

David Roy, president of United Control, Inc., manufacturers of electronic

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The gateway to the North, Edmonton is very much rooted in the present. Pictured: West Edmonton Mall.



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and electrical control equipment in Stone Mountain, Ga., is more optimistic. "Our business volume and orders have increased," says Roy. "It is too early to tell about the effect of tax reform on the general economy, but we haven't seen a slowdown. We are developing and acquiring new products in response to the economy. We're comfortable about inflation and don't anticipate any negative trend."

Inflation

Fear of rekindled inflation is a key factor in dampening business optimism about the economy. Seventy-one percent of the executives expressed concern about higher inflation, up sharply from 41 percent just six months earlier and 51 percent a year ago.

Fifty-seven percent of those surveyed anticipate the inflation rate will hit 5 percent or higher by the middle of next year (see chart 3).

"I am very much concerned about inflation," says Albert Rode, CEO of Universal Steel Company, a steel service center in Hallandale, Fla. Rode said he bases his concern on predictions that prices of building materials and steel will rise in the months ahead.

Milton Wood, president of Wood/Sprau/Tannura, Inc., an executive-search firm in Chicago, is more optimistic: "I think we can keep inflation reasonably in hand as long as we don't have a movement toward ... free spending for federal programs."

Interest Rates

CEOs voice more concern now about the impact of rising interest rates on business loans than they did a year ago, even though their expectations for the prime rate have dropped.

On average, the CEOs expect the prime—which was 8.25 percent at the time of the survey—to be 9.5 percent by the middle of next year (see chart 3). A year earlier the executives surveyed predicted the rate would reach 10 percent in 1987.

"I think it will be a disastrous situation if we continue to see interest rates inch upward as they did in the spring," says John Berst, president of Illinois Computer Cable, Inc. in Downers Grove, Ill. "If interest rates continue to rise, I think we're going to see marginal businesses suffer greatly."

Recession

While those who remain at least somewhat optimistic about the economy still constitute a majority, albeit a declining

"Our emphasis isn't as much on increasing sales as it is on improving margins and reducing costs."

—ROSS HURST
ST. GEORGE, UTAH

one, the survey has tracked a steadily growing concern about the possibility of an eventual recession. Sixty-three percent of the CEOs see a recession as a possibility at some point, compared with 51 percent just six months earlier and 45 percent a year before.

Liability Insurance

Almost all of the executives remain concerned about the cost of liability insurance—80 percent saying they are extremely concerned and 16 percent moderately concerned.

"Liability insurance concerns me very much," says Norman Auslander,

chairman of the board and CEO of Lander Company, Inc., of Englewood Cliffs, N.J., which makes health and beauty aids. "The cost of liability insurance has more than doubled in the past five years, and I'm concerned that it might even double again over the next five years."

And Wayne Rutledge, president of Rutledge Distributing, Inc., a wholesale distributor of ice cream and ice-cream products in Santa Barbara, Calif., says, "We continue to pay more for less coverage. We're just trying to shop the best we can to get the best premiums. Small companies just can't continue to pay 100 percent increases every year."

Nevertheless, the executives are slightly less worried about the availability of liability coverage than they were a year ago. Fifty-five percent are extremely concerned and 29 percent moderately concerned now, compared to 68 percent "extremely" and 23 percent "moderately" a year earlier.

Other Concerns

Worries about inflation, interest rates and a recession have risen, but they are not the only concerns of small business. Government red tape has consistently been a leading irritant to executives surveyed. This time around, over 85

Convenience
Outranks Price

Convenience—not price—is the most important factor in CEOs' selection of an airline flight or a hotel when traveling on business, according to the third *Nation's Business-Ernst & Whinney* survey.

Of the executives who travel by air, two thirds cite convenience or availability of flights as their primary consideration in booking a flight. Price ranks second, followed by punctuality and reliability and quality of service.

"What's important to me in choosing an airline is the convenience of the times I can take off and land, punctuality of the airline and quality of service," says Sidney Haifetz, president of Cogan and Gordan, a wholesale kitchen- and bath-products distributor in Philadelphia.

Says Richard Blum of Cleveland:

"Price is the least important [factor] to me, because I have to be where I have to be when I have to be there." Blum is president of Blossom Industries, Inc., baking-products engineers and distributors. "As with most businessmen, I don't have the luxury of booking flights 30 days in advance and being able to take advantage of all the good deals available to many travelers. I find myself in a position where there is nothing I can do about price."

Convenience is also foremost on most executives' minds when it comes to selecting lodging. Other factors include quality, service and cleanliness; price and discounts; and comfort.

Executives from smaller companies—sales under \$10 million—tend to travel the least often, and those from companies in the \$20-million-and-over category are the most frequent travelers. Two thirds of the CEOs report they spend one to five days out of town on business each month. Two percent are on the road more than 10 days a month, and 15 percent say they never travel.



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Digital technology (the conversion of conventional signals into computerized zeros and ones) has led to a remarkable proliferation of audiovisual uses — in TV, for example, for more diversified and sophisticated programming and information services accessible through computer connections or videotex terminals. And this is only the beginning.

Hitachi's scientists and engineers are using digital applications such as frame memory to develop Improved Definition TV. IDTV will greatly improve picture quality without changing current broadcasting standards by doubling the density of scanning lines and increasing vertical resolution 1.5 times. This same Hitachi technology has resulted in the Digital Audio Tape recorder, which is capable of superior recording and reproduction.

Hitachi's original screen technology has led to high-density big screen projection

TV, using screens up to 110 inches. It is contributing to a wholly new technology, High Definition TV. HDTV is capable of photographic quality resolution and will soon enable satellite services to transmit wide screen images that give the viewers the feeling of actually being there.

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percent say they are concerned about government red tape—and nearly 30 percent are extremely so.

Auslander complained of the cost to business: "Sometimes when I'm trying to get product approval, the government red tape can hold up my new product introduction for 12 to 18 months, and that's very costly."

Because many executives mentioned government spending in the earlier surveys, the latest group was asked to rank it as a concern. The inquiry triggered a stronger response than the issue of government red tape. Ninety-four percent say they are concerned that government spending could affect their businesses during the next year—including slightly over 40 percent who are extremely concerned (see chart 2).

At least half of the executives also expressed concern about domestic and foreign competition and the cost of labor. The availability of labor ranked last on the list.

Asked to evaluate a number of management actions that would contribute to their companies' growth, the executives ranked minimizing taxes as the most significant factor, followed closely by higher sales and lower overhead.

Once again, attracting and retaining competent employees were among the top factors. Others, in descending order

"It is too early to tell about the effect of tax reform on the general economy, but we haven't seen a slowdown."

—DAVID ROY
STONE MOUNTAIN, GA.

of importance, were making greater production efficiencies, improving current cash management, developing new domestic markets, receiving better budget and financial information, developing new products, making greater use of outside consultants and developing new foreign markets.

For Charles Offner, president of Hickory Vinyl Corporation, manufacturers of vinyl film and sheeting in Hickory, N.C., retaining competent employees is most important. "This is the heart and backbone of not only our business, but everyone's business," he says. "People are everything. The fin-

est machinery and processes in the world are only as good as the people who run them. Lose my people, and I lose product quality."

Said Leonard Mauceli of Premier Forms and Computer Products in Chicago: "With competent employees, I won't need as many of them, so that reduces overhead," he says. "Competent employees are an asset to my corporation, allowing it to grow."

A. William Holmberg of Chattanooga, Tenn., stressed greater production efficiencies and lowering overhead. "This goes directly to the bottom line," says Holmberg, president of Times Printing Company, a newspaper publisher. "I think the trend in improving bottom lines has been from cost control more so than increasing revenues."

And Roy, of United Control, emphasized new products and markets. "We do custom jobs," he says. "We need new products and new markets to increase our sales base from custom equipment to standard equipment."

Capital Spending And Borrowing

The executives' plans for capital spending and borrowing remained relatively unchanged from the earlier surveys. Roughly 60 percent of the executives surveyed this time expect to maintain current levels. ■

Putting PCs
To Work

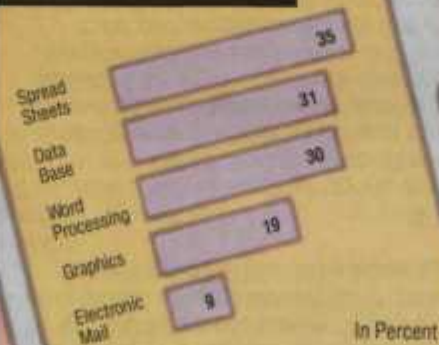
Nearly half of the small-business CEOs surveyed use personal computers on the job to exert more control over their companies.

Among the 43 percent who use PCs, the most common applications are spreadsheets, data bases and word processing (see chart).

These CEOs are enthusiastic about the benefits.

Says Leonard Mauceli, president of Premier Forms and Computer Products in Chicago: "Using a computer has given me the tool to spot any problem areas—a tool for forecasting and just knowing where we are on a day-to-day basis."

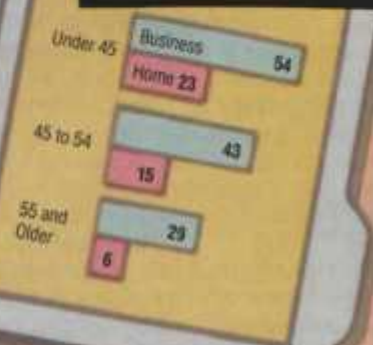
Stan Lipp, president of Carpetland USA, a floor-coverings retailer in Fort Wayne, Ind., says, "Using a computer in our operations has enabled us to grow in an orderly fashion without in-

How Small-Business
Executives Use PCs

creasing personnel as fast as we would have had to if we were doing the work manually."

The survey also showed that executives under 45 are more likely to use a PC, both in the office and at home (see chart).

One executive who uses a PC at home is Brian McAdams, president of McAdams, Richmond and Ong, Inc., a

Younger Executives
Use PCs More

Philadelphia advertising agency. "I use it primarily for word processing, storing information and developing concepts or plans that I may want to keep confidential and work on during the weekends or at night," he says.

"It's a very handy device because it keeps everything for me, and I can just go back to it whenever I want to," McAdams adds.

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Innovators

A holiday gift to a client or employee "should cement a good relationship... rather than create a new one."

By Sharon Nelton

It's Time To Say Thank You

As the holiday season draws near, business owners are thinking about gifts for employees and clients. If you're one of them, Paula Schauwecker has some advice for you.

As president and co-founder of Gift-Search, a Dallas "executive buying service," Schauwecker has helped such companies as Ford Motor Company, Frito-Lay and the Southland Corporation (owner of 7-11) select gifts and incentives. She offers these ideas:

- A gift should be a means of showing appreciation, not of soliciting future business. "It should cement a good relationship—especially during the holiday season—rather than create a new one," she says. "This is the time of year just to say, 'Thank you, we appreciate your business,' or 'We appreciate your help.'"

- Go for high quality. That doesn't mean expensive. Schauwecker says well-made clocks, letter openers or address books can be found for as little as \$5.

- Convey your company image. If you're a high-tech company, a gift that looks high tech or has a high-tech function, such as a small, streamlined calculator, would be appropriate. If you're a very traditional company, a tasteful, personalized small wooden box might be more your image.

- Avoid gifts that are too personal, such as items of clothing or certain personal-care items. You don't want to make the recipient feel uncomfortable. Keep in mind that your gifts will probably go to both men and women.

- Do some investigating before giving liquor, an ashtray or a box of cigars. Some people don't drink alcohol; some companies have no-smoking policies.

- Keep the level of employee gifts consistent. Generally, all employees should receive the same gift. But you might give something more individual to your secretary or to someone who has been with you for, say, 25 years.

If your company is on hard times this year, at least send a personalized card



ILLUSTRATION: ERIC WESTBROOK

to employees. "They will understand if you can't spend the money for a gift, as long as they receive something from you that just says 'thank you,'" Schauwecker says.

Employees would much rather receive a beautiful Christmas card than a gift that is not tasteful or that is of poor quality. "That does more harm than good," she says.

Schauwecker estimates that American businesses now spend nearly \$2 billion annually on gifts. And those who recognize their employees with gifts, she contends, stand a better chance of keeping them.

The safest gift? Probably food. "Food gifts are something that everyone can enjoy, and they're usually not too expensive," says Schauwecker.

An Effective Way To Get Attention

The American Society for Personnel Administration used a simple but effective attention-getter as a lure to a recent reception honoring Jeffrey J. Hallett on the publication of his book, *Worklife Visions*.

ASPA's 8½-by-11 heavy paper invitation featured a drawing of the front of a man's dress shirt. Affixed to the collar was a real necktie—chopped in half.

"Join us to celebrate the demise of ties and other wonders of the 21st century working world," it read. It went on to say that Hallett's book "forecasts how workers will cut their old ties and 'knot' new ones, as America enters a new age of worker independence."



PHOTO: T. MICHAEL KEZA

Economic Development



PHOTO: DUANE HALL



PHOTO: ROBB KENDRICK



PHOTO: DUANE HALL



PHOTO: BRUCE BORNH

SPECIAL REPORT

Fostering New Business Growth

By Harry Bacas

Businesses and universities combine forces to create environments that encourage start-ups.

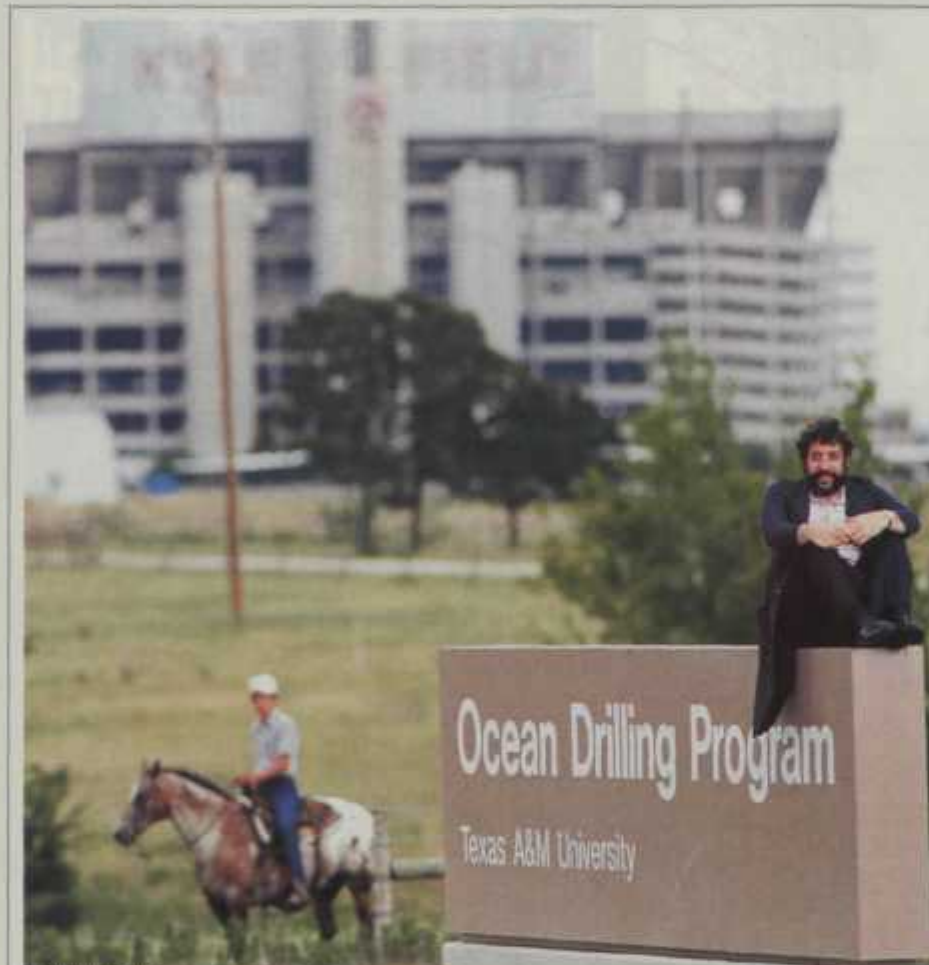


PHOTO: ROBB KENDRICK

I went to an international conference in Nice recently," says Sara Creagh, from her office in Chapel Hill, N.C. "When I told people there where our company is, they had never heard of Chapel Hill or even North Carolina, but when I said it was near Research Triangle Park, they all knew about that."

Sara Creagh is planning director of a company that does statistical analysis and data processing for pharmaceutical

The \$35 million-a-year Ocean Drilling Program at Texas A&M Research Park adjoins the university's stadium (background) and a horse ranch.

companies. It was started five years ago by a professor at the University of North Carolina at Chapel Hill and it has clients worldwide.

The company, Quintiles, Inc., is now planning to move right into Research Triangle Park. The reason, says Creagh, "is that we needed an international address, and we feel the park provides that."

Research Triangle Park, now 27 years old, is the largest planned research park in the United States and one of the best known. Its success in bringing business and employment to North Carolina has encouraged other communities to try the same thing.

Across the country research parks have become an increasingly important factor in economic development, not only because of their facilities but also because of the attractions they hold for employees of the companies that move into them.

Research Triangle Park's 6,300 acres are home to 50 companies employing 27,000 persons, with an annual payroll of more than \$1 billion. The park has attracted so many companies to the whole triangular area bounded by three universities—North Carolina, Duke (in Durham) and North Carolina State (at Raleigh)—that this entire 1,500-square-mile region is one of the fastest growing in the country.

Not all research-and-development parks are the same. Sometimes universities provide the land and manage the parks themselves; sometimes they contract with private developers; sometimes the university's connection is only a mention in the sales brochures.

When the university is owner or partner, private industry and the university share benefits. The company gets an attractive site in a controlled environment. It can call on faculty for consultation and on students and graduates for employment. It can use the university's data sources and specialized equipment. And its employees can enjoy campus athletic and cultural events, further their educations or take adjunct faculty appointments.

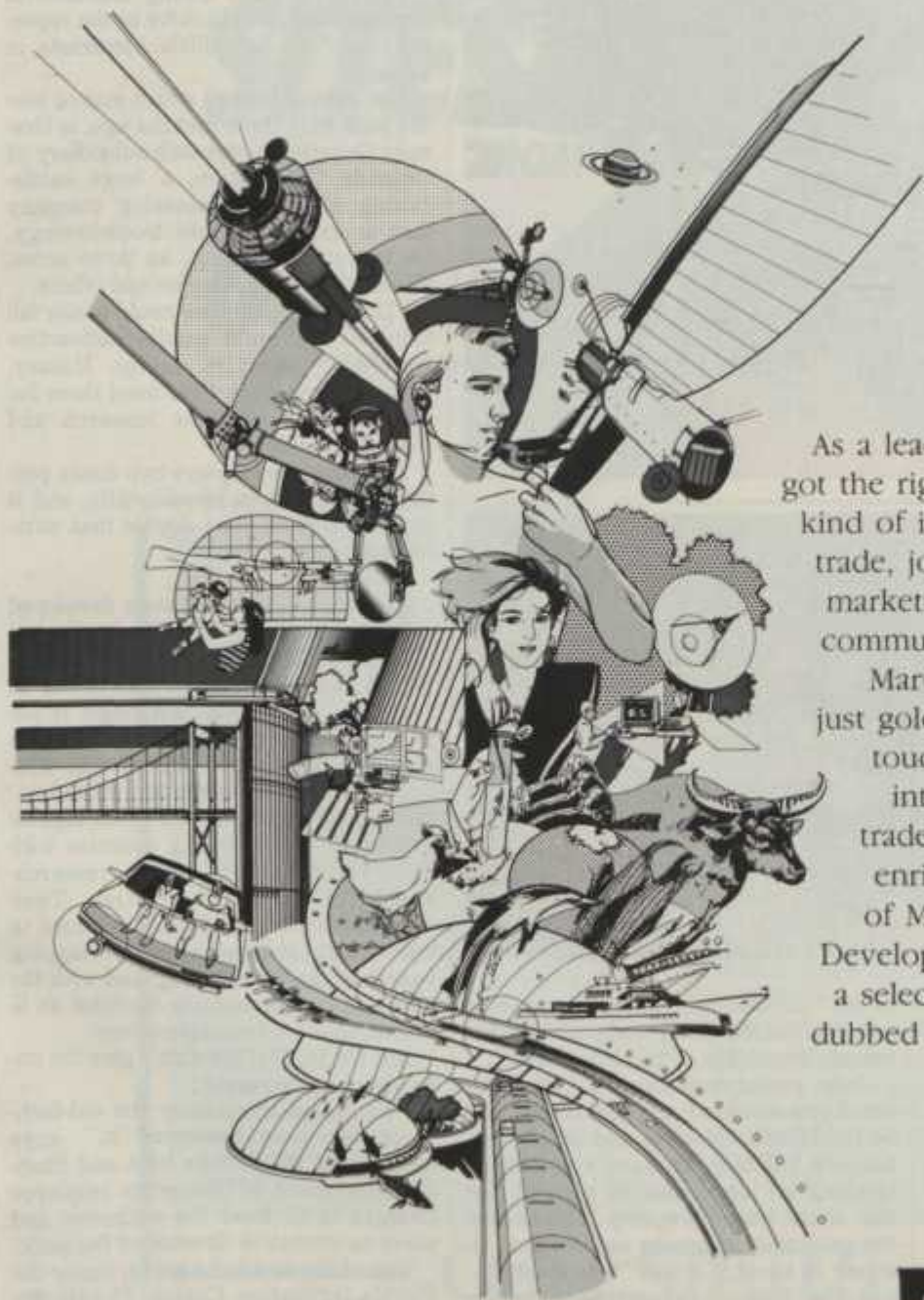
The university, on the other hand, gets a return on its investment in the land. Its students, graduates and faculty have opportunities for employment, consulting and joint-research projects with private industry. And university programs may receive research grants or contributions of specialized equipment from park tenants.

There are nearly 250 research parks in the country; 120 of them are members of the Association of University-Related Research Parks, formed last year.

The association's first president, Mark L. Money, vice chancellor of Texas A&M University, says these parks have become "a growth industry." The research park Money directs at A&M is one of the country's newest. Unlike Re-

On the cover: At top, three employees enjoy a lunch-hour picnic outside Burroughs Wellcome in North Carolina's Research Triangle Park. At bottom, core samples being filed at the Ocean Drilling Program at Texas A&M Research Park; precision aerosol machinery at Bepak, Inc., Cary, N.C.; and owners of Trident International with video projector, at Central Florida Research Park.

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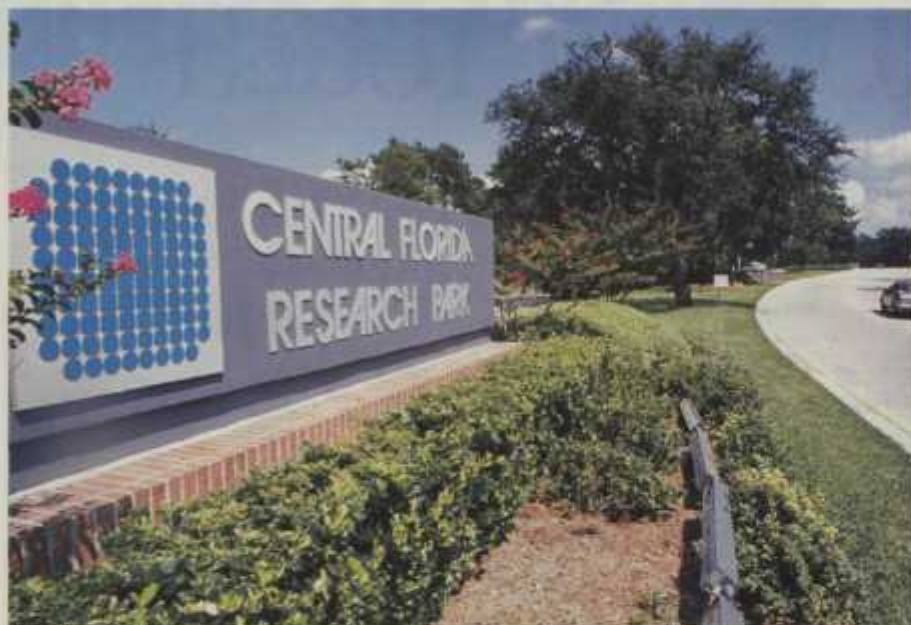
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Fostering New Business Growth

SPECIAL REPORT

The American Electroplaters Society, an early tenant at Central Florida Research Park, uses printing and mailing facilities to service its 8,600 members.



PHOTOS: BRUCE BORDEN



search Triangle Park, it was not launched by several state agencies and institutions, public and private. It is strictly a project of Texas A&M.

The university selected a 318-acre site on land it owned between its main campus and the College Station airport, spent \$6.5 million putting in roads, utilities and landscaping and hired Mark Money away from the University of Utah to plan and run it.

Although Texas A&M is the largest engineering school in the country (an enrollment of 49,000), it is relatively remote from metropolitan centers; the population of neighboring Bryan-College Station is about 100,000. So it did not expect to get manufacturing facilities of major corporations like IBM, Burroughs Wellcome, GE Semiconductor or Sumitomo Electric, as Research Triangle Park has done.

Instead, any tenant operations have

to be "substantially research or technology-oriented [and] compatible with research interests of the university."

Only prototypes can be manufactured or assembled; all operations must be smokeless, noiseless and odorless; a tenant's building can have a floor area totalling no more than 50 percent the size of the leased property. And before the university approves an occupant, it wants to know if it will "hire students, use the library and scientific equipment, complement areas of expertise or contribute financially or otherwise to the university."

The first tenant moved in a year ago. It is the Ocean Drilling Program, funded by the National Science Foundation, with contributions from 17 countries. It sends its drilling ship around the world to take samples of the ocean bottom for geological research. It employs 150 persons (plus the contract crew on the

ship) and spends \$35 million a year.

Its 60,000-square-foot building on a six-acre plot holds offices, science labs and a repository for core samples.

Project director Philip Rabinowitz says his staff likes to refer to the repository as "the best little corehouse in Texas."

The second tenant, which moved into the park only three months ago, is Granada Genetics, a research subsidiary of Granada Corporation, a large cattle-raising and food-processing company that is expanding into biotechnology. Its two-story building, on three acres, also contains laboratories and offices.

"The park agreed we could house lab animals and could handle radioactive materials," says Dr. Joseph Massey, company president. "We need them for our work on hormone research and DNA technology."

The company employs two dozen people, most of them hired locally, and it expects to more than double that number soon.

A park that is far more developed than Texas A&M's is Central Florida Research Park, 13 miles east of downtown Orlando, in Orange County, Fla. Although it adjoins the University of Central Florida and has contractual agreements with the university, it is privately owned.

The park grew out of Florida legislation of 1979 authorizing counties with state universities to set up research-and-development authorities. They could build a research park adjacent to a university if they set up overlapping boards of directors and agreed with the university to share such facilities as libraries and telecommunications.

But the legislature didn't give the authorities any money.

"We raised the money the old-fashioned way—we borrowed it," says Rick Tesch, the former RCA and Florida Department of Commerce employee brought in to head the authority and serve as executive director of the park.

One of the last to be set up under the Florida legislation, Central Florida Research Park soon was growing faster than any other, thanks to its metropolitan location, good financing and aggressive management. Its 30 companies employ more than 600 persons, and the work force is expected to reach 4,000 by early 1989.

The growth is already straining facilities. Road improvements will be required to deal with morning and eve-

Continued on page 40L

SELECT SITES



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SELECT
SITES



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Stressing The Human Side

Good workers mean more than low taxes when a business is deciding where to locate, a study says.



PHOTO: WARREN MORGAN—WESTLIGHT

Local communities trying to promote economic development ought to de-emphasize their traditional stress on lowering business costs and adopt strategies that focus more on the less-visible human factors in business.

That is the conclusion drawn by a study of how businesses in one regional economy made decisions to expand or relocate.

"Visible cost factors, such as taxes, labor, transportation and energy, significantly affect the pattern of regional growth across states," says the study, done by three Boston University busi-

Human factors such as recreational, entertainment and study facilities are increasingly important to businesses choosing where to locate.

ness professors for the U.S. Commerce Department.

But these cost factors "cannot explain differences in employment growth" among local areas.

"Instead," says the report, "less visible factors, such as labor skills, worker attitudes, the labor-management environment, agglomeration economies [economies that have already developed

local support industries] and entrepreneurial skills [in the population] are found to be the major determinants of employment change in the local economy."

In other words, the reason businesses move to or expand in a certain area has more to do with the availability of good workers than with the size of the tax bite.

David G. Terkla, one of the authors of the study, says local officials need to be told, "these are some things that you can do to really make a difference in your town."

Future growth of mature manufacturing economies will depend greatly on an area's ability to "attract innovating firms and to encourage local firms to develop innovations," the report says.

But firms "usually are not attracted to a region because of its 'visible' advantages, such as relatively low land or labor costs. Rather, most firms are born there, are developed there or are constrained to do business there because of their skill and technology requirements," the report adds.

The report says the way for a region to strengthen its economy is to develop policies that build on these "invisible" factors.

The report says development officials should:

- Meet skill scarcities through improved technical, vocational and skill-training programs targeted at newly emerging business needs.
- Address spot skill scarcities through more flexible employment and temporary placement of older workers.
- Develop a local "immigration" policy to ensure adequate supplies of new labor from outside to local industries.
- Encourage a climate of labor-management cooperation.
- Target development efforts on firms "that can benefit directly from local agglomeration economies." This means identifying new companies that will draw upon the traditional local skills and supporting industries. Avoid generic programs that benefit "foot-loose" firms.
- Foster new business through incubation programs that build on invisible growth factors rather than those that subsidize visible costs. **B**

Relocating A Spouse

Companies planning moves have always had to consider the human factors, but a new one is becoming increasingly important: spousal job relocation.

Approximately 60 percent of employee transfers now involve dual career couples. The figure is expected to reach 75 percent by 1990.

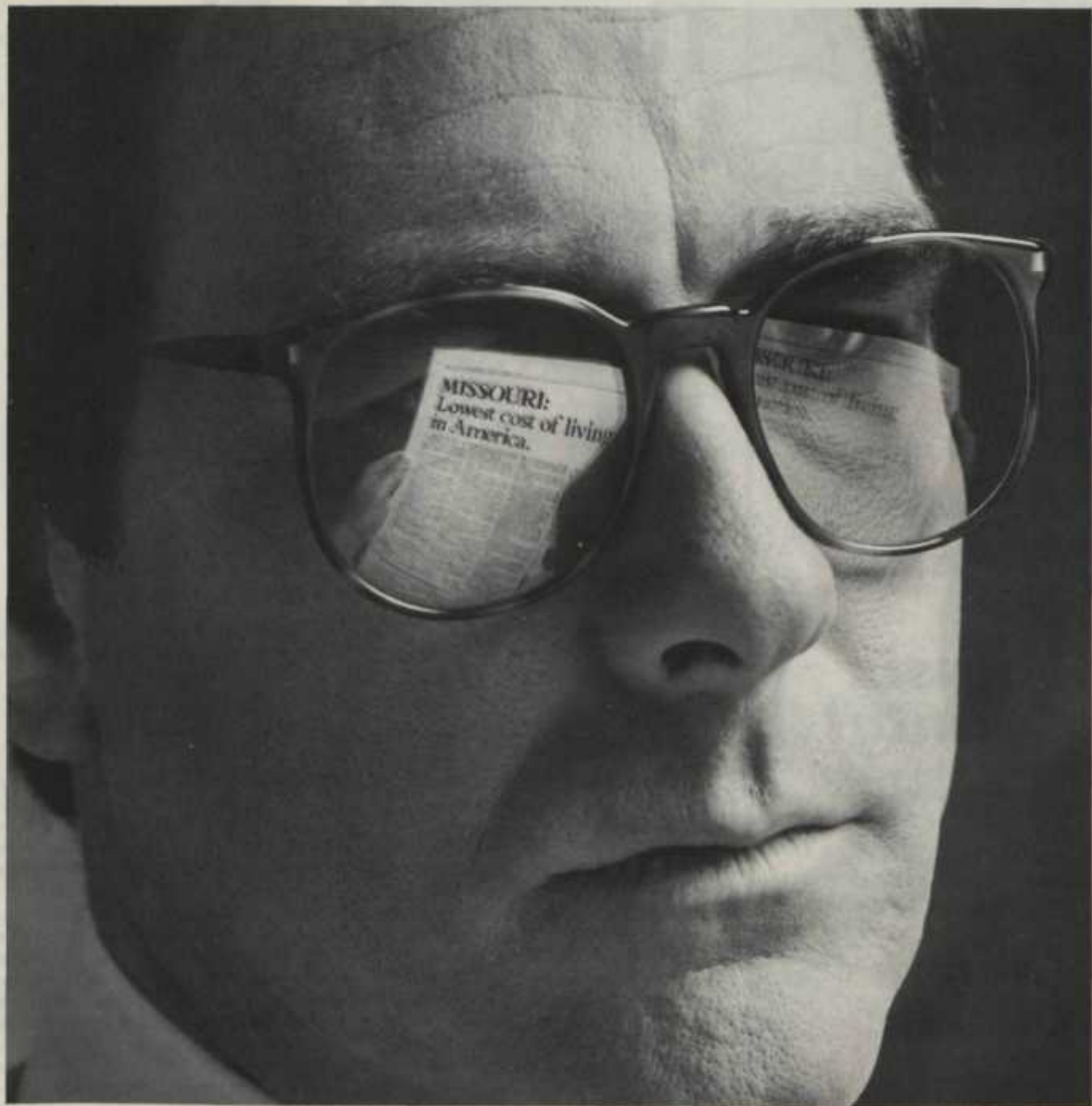
Not only is the number climbing, but there has been a dramatic shift in its character.

Carl H. Driessnack, head of an outplacement firm in Sarasota, Fla., recently wrote that "four years ago, 75 percent of my spouse relocations were for females whose husbands were then

being relocated; since then, 66 percent of my spouse relocation work has been for husbands of relocated women."

Driessnack says larger firms should think about establishing "career centers" where spouses of relocated employees would feel free to come in and use company resources and reference materials, telephones, typing and printing services to further their search for a job in the new location.

He says spouse relocation may cost as much as \$2,000 or \$3,000 yet still be cost-effective because it enables faster relocation of the employee, unites families sooner so the employee can concentrate more quickly on the job, helps attract and retain the best talents and specifically addresses a problem instead of inflating a candidate's salary to compensate.



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SPECIAL REPORT

There's No Place Like Home



PHOTO: STAN BAROUM-UNIPHOTO

Maine Gov. John R. McKernan, Jr., traveled to neighboring Massachusetts to promote his state's blueberries.



PHOTO: SUSAN STEINAMP-PICTURE GROUP

Nebraska Gov. Kay Orr says new incentives legislation proves her state is "open for business."

Gov. John R. McKernan, Jr., of Maine likes to give economic development the personal touch.

The governor, one of the nation's youngest, has been starring in television ads promoting his state's milk and tourism industries. Recently he spent a day in Boston hosting a lunch that featured blueberry wine and blueberry ice cream, then gave away 700 pints of Maine wild blueberries in front of city hall.

Economic development is top priority business in many statehouses these days. McKernan believes "getting competitive" isn't just a national mandate; the states have to pitch in too.

He says improved education and economic development are his two best tools to transform Maine into an "opportunity state."

In McKernan's pursuit of competitiveness, he has pushed bills to set up job-opportunity zones, coordinate job training and re-employment and provide substantial additional funding for the university system.

"Economic development and job creation, fiscally responsible state government and opposition to new broad-based state taxes have been my long-standing agenda," McKernan says.

Gov. Kay Orr of Nebraska, the first woman Republican governor in the nation, also has been active in economic

development, with a slogan, "Nebraska's Open for Business."

Orr made enactment of a comprehensive package of tax incentives for new and expanding businesses a centerpiece of her first term this year.

In the first three months after the legislature completed work on Orr's business incentives program, 39 companies announced new projects or expansions in Nebraska with projected investments of \$492 million and creation of 5,385 new jobs.

The economic-development package includes tax credits based on job creation and investment, capital-gains exemptions, and incentives for small and start-up companies.

"There's not a tax category now where Nebraska isn't a more favorable environment [than some neighboring states]," said James McClymond, president of Peoples Natural Gas, in announcing his company would move its 240-employee headquarters to Nebraska. He said the move will save the company \$8.8 million in lower building costs, lower tax obligations and lower operating expenses.

Another state making a big push this year to enhance the competitiveness of its industries is Oklahoma. Gov. Henry Bellmon signed sweeping economic-development legislation in July.

The five-part package includes new

These states are finding ways to make "competitiveness" more than a buzzword.



PHOTO: AL STEPHENSON—PICTURE GROUP

Oklahoma Gov. Henry Bellmon is traveling to Japan this month in pursuit of further foreign investment.

financing for startups, technical assistance and international-trade development.

State authorities can now guarantee up to 50 percent of venture-capital portfolios, make direct loans on first and second mortgages, provide free industrial-access roads and furnish free customized industrial training.

A new science and technology center will issue matching and open grants to support research, facilitate technology transfer and provide business start-up assistance.

Bellmon says that Oklahoma's recent entry into the bidding to host the U.S. Department of Energy's \$4.4 billion super-collider atomic-research facility shows that the state is "able to compete in these big leagues."

This month Bellmon travels on a mission to Tokyo, Kyoto and Osaka. Japanese industry has invested over \$135 million in Oklahoma this year, and Oklahoma is the only U.S. state featured at the World Exposition of Historical Cities being held this month in Kyoto. (Oklahoma and Kyoto are sister states.)

In their different ways, these three governors illustrate how a new spirit of competitiveness is animating state governments across the country. **B**



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SPECIAL REPORT

Fostering New Business Growth

A bridge leads to the entrance of Bepak, Inc., in Cary, N.C. Manager Pete Slosson says his company wanted to be outside the research park's boundaries.



PHOTO: DUANE HALL

Continued from page 40D

ning traffic jams that have developed near the entrance, and some tenants are grouching because there aren't more banks and restaurants.

More than a third of the park's 1,250 acres is developed. Firms can lease existing facilities or buy and build.

The biggest tenant and anchor of the park is the U.S. Naval Training Systems Center, which moved into a 281,000-square-foot facility this fall. The move consolidated operations that used to be in 28 separate buildings in Orlando. The Center gives out \$1 billion a year in subcontracts for training programs and materials.

The park is not limited to research activities. It will allow a company to do manufacturing if it is also doing development work. But Tesch says he won't accept an operation "where all the development has been done and they are just cranking out a product."

The park's first tenant was the American Electroplaters and Surface Finishers Society, which has 8,600 members and 23 employees. "We played the role of pioneer," says Executive Director Howard Schumacher. "There was nothing but lakes and roadways and trees here when we bought our land."

Another small tenant is Trident International, which designs and assembles large visual-display systems for computers. Started in an Orlando garage three years ago, it moved to the park a year later. It has 12 employees.

"Proximity to the technical school was the key issue," says Mark Bormann, who until recently was chairman of the company. "We signed an agreement with the university to use graduate students in part-time employment, and we also use its property and facilities. Last year we hired two of its graduating engineers."

Central Florida Research Park may be miles ahead of Texas A&M Research Park in development. But it still isn't in the same league with Research Triangle Park. There, the development has gone far beyond the borders of the park itself.

The experience of Bepak, Inc., a small North Carolina manufacturer, shows how a research park can affect an entire region's economic development. Bepak, a subsidiary of a British firm, was set up less than three years ago in Cary, N.C., a small town southwest of Raleigh. It makes precision aerosol valves for pharmaceutical use and has 42 employees.

"Two people from the United Kingdom went through an exhaustive search [for a site] in almost every state in the Eastern time zone," says Bepak General Manager Pete Slosson.

"We didn't want to be in Research Triangle Park itself," he says, "because we are not a high-tech, research-oriented company. Most of our research is done in England. Also we didn't feel the land costs were worth it. But we didn't want to be in an ordinary industrial park, either, one flat-topped building between other flat-topped buildings."

The company asked the architecture department of nearby North Carolina State University to run a building-design contest. The result is an interesting structure with an irregular roofline and an entrance bridge that leads a visitor to the second-floor lobby.

The building stands on 38 acres of rolling hills dotted with small lakes. Across the road is a small horse farm.

It's a nice place. But the company, like scores of other companies outside the boundaries of the research park, probably wouldn't be there at all if it weren't for the magnetism of the park. ■

Hungary

By Tamás Beck

President, Hungarian Chamber of Commerce



Tamás Beck

The Hungarian Chamber of Commerce is staging business meetings in three U.S. cities—Boston, Denver, Atlanta—in November to promote American-Hungarian commercial and economic relations on the company level.

One of the purposes of these talks is to acquaint the participants with the characteristic features of the Hungarian economy and, in particular, with the regulations relating to the formation of joint ventures.

There are various forms of economic contact between the enterprises of different countries that have been adopted by United States and Hungarian companies as well. These include: simple sale and purchase, barter, jobwork, assembly contract, sale of turnkey projects, production and sales cooperation and creditor/debtor relations.

Joint ventures have proved more advantageous than simple sales transactions or such types of businesses as trade in intellectual commodities and licenses, or co-operative deals in production and marketing.

Hungarian economic managers place great emphasis on promoting the establishment of joint ventures in Hungary. As it stands, the possibility of founding a joint venture has existed since 1972, although the current favorable terms were only formulated in 1984.

Based on our own experience and on that of our foreign partners, we would like to briefly outline the advantages for foreign firms of participation in a joint venture on Hungarian soil.

The first and foremost advantage is an opportunity for American companies to penetrate new markets.

We offer the Hungarian market of 10 million people, free of restriction.

If the nature of the product or the volume of output makes it reasonable, we would be ready—as it would be in our own interest—to help lay the foundations for a permanent presence in CMEA (Coun-

cil of Mutual Economic Assistance) markets. This, of course, would only be a second step.

The Hungarian side strongly favors exports paid for in convertible currencies. In view of the country's international debt and balance-of-payments problems, we expect joint ventures—once they have been in operation for some time—to produce at least as much convertible foreign exchange as they need to meet their transfer commitments and productive import requirements.

However, we have found that, in practice, the balance of payments can also be improved when a joint venture produces some item which hitherto had to be imported into Hungary, thus reducing the import demand. If such an arrangement can be achieved, it will more or less satisfy the aforementioned foreign-exchange income requirement.

The second advantage is that a foreign partner intending to invest capital in a Hungarian joint venture can expect to enjoy very favorable tax terms.

There are some 40 different "priority" spheres of production in which the rate of corporation tax, i.e., profit tax, is 0 percent for the first five years and 20 percent thereafter.

These areas include:

- Electronics and electronization;
- Agriculture and food-processing;
- Machinery and equipment;
- Materials and power-saving;
- Technological development;
- Development of packaging techniques.

Identical benefits are provided for joint ventures involved in the establishment and operation of hotels in the tourist trade, as well as for projects which would enable a greater exploitation of the numerous ther-

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mal springs and medicinal-water sources in Hungary.

When a product falls within one of the "priority" spheres—of which only a handful were mentioned above—then the corporation tax is 20 percent for the first five years and 30 percent from the sixth year onwards.

In the remaining cases, the rate of corporation tax is 40 percent.

Aside from this corporation tax, no other tax is charged against profit. What is more, when profit is reinvested, between 50 and 70 percent of the tax will be refunded.

Under such favorable terms, it will be worthwhile for an American firm to supply its West European market from Hungary. Although the West European buyers will

still have to pay customs duties on goods delivered from Hungary, such expenses are more than offset by the previously mentioned favorable tax terms, the savings on transport costs made possible by shorter routes, as well as lower production costs.

Those costs will, of course, depend on the nature and type of production.

We are doing our best to eliminate the anxiety a foreign partner wishing to enter a joint venture in Hungary might feel regarding problems that might arise due to differences between the two economic systems. In addition to warranties stated in government regulations, we also supply bank guarantees concerning the transferability of the profit share due to the foreign partner and the repatriation of capital—property share—in the event of liquidation. In this respect there are no restrictions.

And why would a Hungarian partner want to participate in a joint venture?

The most important reason is the fact that joint ventures ensure that the foreign partner, through his stake, will become interested in the successful organization of the company's management, production and sales.

The Hungarian partner's other goals include:

- Improvement of the country's convertible-currency balance;

- Introduction of major technical developments (in which case, improving the convertible-currency balance becomes of secondary importance—as was mentioned earlier);

- Profits;

- Attraction of foreign venture (not credit) capital to Hungary.

The Hungarian Chamber of Commerce is ready to supply, upon request, further detailed information as well as assistance in contacting prospective partners, and a special panel has been set up at the Chamber for this very purpose.

Foreign partners are finding the above-mentioned terms increasingly attractive; this is borne out by the fact that over 90 of the existing 100 joint ventures have been founded in the last three years. Of these, direct American-Hungarian joint ventures number only six, with Americans having a stake in a total of 10 joint ventures in Hungary.

"The condition for moving ahead lies in a better understanding of each other's possibilities," said Dr. Richard L. Leshner, my esteemed partner and president of the U. S. Chamber of Commerce, during his stay in Budapest in July. I believe he is right. ■

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Finding new ways to manage risks at lower costs is still the commitment Industrial makes to its wide variety of policyholders. Industrial has learned the way to earn and keep the trust and respect of its customers is through consistent, outstanding performance. Today, at Industrial Indemnity, you can still count on our handshake to guarantee the job.

For more information, call your independent agent or broker. If your agent/broker doesn't represent Industrial, please call the Division Manager at your local Industrial Indemnity office for the names of several professional agents and brokers.

Industrial Indemnity

A black and white photograph of various items on a desk. On the left is a large hard hat. In the center is a compass. To the right is a pen and a newspaper with the headline "THE DOW JONES AVERAGE".

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Sell Abroad; You Can Collect

Factoring agents take the risk out of foreign accounts receivable.

By Steven Golob

The dollar's down, overseas buying power is up, and Washington is pressing foreign governments to further open their markets to U.S. products.

Now is the time to sell abroad.

For U.S. manufacturers with questions about accounts-receivable collections over there, the answer may be a factoring agent from whom the producer can collect here.

Basically, factoring is the commercial process through which an agent buys the short-term accounts receivable of a consumer-goods manufacturer. "We facilitate the sale by transferring the credit risk from the seller to the factor," explains Dick Solar, managing director of BT Factors, a unit of Bankers Trust in New York.

Factoring also:

- Has long been used by U.S. apparel and textile manufacturers, among other makers of seasonal goods, to borrow against future sales and to reduce bad debt;
- Has a reputation, because of the discount on the sale of accounts receivable, as the loan of last resort for cash-hungry business people a step away from bankruptcy;
- Has made it possible for companies lacking an international network of offices to check a prospective buyer's credit to sell abroad without assuming credit risks.

Factoring is not accounts-receivable financing, in which a company simply borrows against its accounts receivable but is still responsible for collecting them.

And factoring is not forfeiting (from the French, meaning to give up one's rights to) although it's closer because they both involve selling accounts receivable. However, forfeiting is mainly three-to-five-year financing of capital goods while factoring is generally 60-to-180-day financing of consumer goods.

And factoring avoids the inconvenience of a letter of credit, which requires a foreign buyer to set aside funds.

To find the home of the forerunners

Factoring, now the province of pin-stripe-suited bankers, had its origins in the rough-and-tumble world of New York's garment district.



PHOTO: ANDREW HOLMBROOKS—BLACK STAR

of today's factoring agents, you've got to go to Seventh Avenue in New York. There, on the side streets between 34th and 42nd Streets, in the delicatessens of New York's garment district, is the birthplace of factoring.

Today's factoring agents themselves are no longer colorful characters like those who once gathered in those delicatessens. They are instead banks—big

multinational banks offering a wide range of sophisticated services, not just a little money to carry a "rag maker" through the slow season.

Listen to the sales pitch of Barry Essig, executive vice president of the New York factoring unit of Britain's National Westminster Bank. Asked what NatWest Commercial Services could do for a U.S. firm seeking to sell abroad,

Factors To Consider

The leading factoring agents are:
BancBoston Financial Company,
New York.

Barclays American/Commercial,
Charlotte, N.C.

BT (Bankers Trust) Factors, New York.

Chemical Bank Factor and Finance
Division, New York.

CIT Group/Factoring Manufacturer's
Hanover, Inc., New York.

CIT Group/Factoring Meinhard
Commercial, Inc., New York.

Congress Talcott, Philadelphia National
Bank, Philadelphia

C&S Financial, Citizens & Southern
National Bank, Atlanta

Heller Financial, Fuji Bank, New York.

Irving Commercial, New York.

NatWest Commercial Services,
New York.

Republic Factors, New York.

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Steven Golob is a Washington freelance writer specializing in business finance.

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Essig responded with half a dozen rapid-fire sentences, beginning with, "We can:

- "protect you against any foreign bad debts;

- "make you more competitive because we can enable you to sell on open-account terms as opposed to selling on the basis of a letter of credit;

- "do your entire accounts receivable bookkeeping on a multicurrency basis;

- "do all the collecting from your customers on a multilingual basis;

- "provide you with sophisticated management reports on your international business;

- "collect your accounts receivable much faster than you would be able to—effectively reducing those costs because we're on the spot in a lot of countries, and purchasers will, by and large, pay a major financial institution faster than they'll pay a foreign supplier.

"And, if you have to sell in a currency other than U.S. dollars for competitive reasons," continues Essig, "we'll enable you to do so and, at the same time, protect you against exchange-risk losses."

While Essig and the other fiduciaries involved in international factoring will do all of the above, the manufacturer still has to produce the product and sell it in overseas markets.

But even for those functions, the factors will be there with advice. They have a stake in seeing their clients succeed.

They also have personnel around the world who have become experts on their clients' industries while checking out the credit of the prospective purchasers of their clients' goods.

Of course, the factor's credit analyst on the spot can turn down a prospective overseas purchaser as too risky. And even when the purchaser is solvent, the factor may charge the U.S. manufacturer a premium if the country is unstable or for various other reasons.

For most international factoring, the base service charge is 1 to 2 percent of sales assumed, but can be as much as 5 percent. The domestic base service charge is less, usually .75 to 1.5 percent, because the factor doesn't have as many expenses when working just within the United States.

If the factor advances money to his client for the accounts receivable before collecting on them himself, the interest charge—internationally and do-



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mestically—is generally 1.5 to 2.0 percentage points above the U.S. prime rate.

Advancing money to the manufacturer before collecting it from the customer is called conventional factoring. It has been especially popular among poorly capitalized manufacturers, who have used the factor's funds to cover the shortfall created when suppliers demand payment long before the manufacturers can collect from their customers.

In domestic factoring, 80 to 85 percent of the manufacturers ask for the cash up front. But that percentage drops substantially in international factoring, where more of the companies are bigger and better capitalized. "Half of our clients do not borrow, they just use the service," says Henry Kassebaum, executive vice president of Heller Financial, which is owned by Fuji Bank.

For service-only clients, factoring is an interest-free process of getting their money as their accounts receivable mature.

This process is called maturity factoring. For international sales, what it comes down to is that for a percentage point or two of receivables, the factor facilitates his client's overseas sales and provides bad-debt insurance with no deductible.

Kassebaum maintains that U.S. factoring has moved a long way toward respectability from its roots in the rag trade. However, factoring here still is often thought of as being only for the slow-growth, no-growth or sometimes reverse-growth textile, apparel, footwear, furniture and toy industries it finances.

Elsewhere in the world, factoring never had the image of being limited to manufacturers of seasonal goods or as the last stop before the bankruptcy court. Foreign manufacturers realize factoring should be used not to bail them out but to finance their growth.

Unfortunately, much of that growth has come at the expense of U.S. manufacturers. Foreign manufacturers have benefited greatly from factoring in grabbing ever-larger shares of U.S. markets.

Now, with the comparatively low price of U.S. goods opening a window of sales opportunity abroad, U.S. manufacturers can use factoring to finance and facilitate their entry into their overseas competitors' own markets. **ND**



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Make It Right For The Customer

By Harry Bacas

Rule #1: The customer is always right.

Those words are chiseled on a 6,000-pound piece of granite in front of Stew Leonard's Grocery Store in Norwalk, Conn. The store demonstrates its belief in the classic business motto through such actions as cheerfully giving refunds to customers on goods purchased in other stores.

"We must be doing something right," says Stew Leonard, Jr., the president. "We get 100,000 customers a week, and business is growing 20 to 25 percent a year."

Leonard's Grocery does a lot more for customers than accept all returns, but it is not unique. Many companies around the country are putting new emphasis on customer service. They are replacing the information booth with a whole company culture dedicated to producing satisfied customers.

In 180 bank branches in Pennsylvania and Delaware, employees of the Meridian banking group are taking a course in "professional customer relations" to learn how to listen, ask questions, identify customer problems and resolve conflicts. Some employees try to fill out deposit slips with Vaseline smeared on their glasses or to count money with three fingers on each hand taped together. The idea is to give them a better



Stew Leonard's motto, carved in stone at the entrance to his grocery, makes clear his dedication to service.

understanding of what older customers with glaucoma or arthritis may be going through when they are in the bank.

In Williamsville, N.Y., Poppy Rosano won't allow repair technicians for her office-machine business, however

Why would bank employees try to fill out deposit slips with Vaseline smeared on their glasses? To give better service.

skilled, to service a customer's business machine until she has taught them how to "leave the client's place neat and clean."

"Interest in improving customer relations is exploding," says Francis Tritt of Kansas City, Mo., whose seminars in customer service are in wide demand.

Tritt says businesses that used to put all their energies into creating new

Facing An Angry Face

How do you deal with an angry customer? "First you have to respond to the anger," says Joan Cannie, chairwoman of Learning Dynamics, Inc. "You get on the same level as the person, you reflect the emotion without getting hooked into it and becoming angry yourself."

"Then you respond to the person; you show him you are trying to understand what's on his mind."

"And finally you respond to the problem; you ask questions to get the facts and find an answer."

Cannie's company, headquartered in Waltham, Mass., designs training mate-

rials for business and public agencies and for its associate, Education Technology Consortium. One of its biggest seminar programs is "Service First." Another specializes in "Dealing With the Angry Public."

The first thing service employees must learn, says Cannie, is to value themselves and others. Then they get into techniques.

When a customer is in a rage, shouting "this damned bill is screwed up... all your prices are too high... you never deliver anything on time," the worker is advised to begin by saying something sympathetic—perhaps: "It sounds like we've done everything wrong to you." He can repeat part of the complaint in his own words to show he is listening. Then he can begin asking questions to determine the facts.

"As a service worker, you have to separate your identity from your role in this situation," says Cannie. "It helps you deal a little more objectively if you see you are not the target, you are not threatened."

"You also must understand that this person in front of you is not thinking straight and cannot listen to reason until the anger is reduced."

"It all comes down to behavior," says Cannie, who was in advertising before she took up adult training. "Your behavior determines how well you do your job. You must learn behavior to succeed."

"Dealing with anger is the single most difficult task for public-contact people. We give them the behavior to handle that anger, find solutions... and survive."

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Sandra Christman, a teller at Meridian Bank, Reading, Pa., tries to read through Vaseline-smeared glasses that duplicate older customers' failing eyesight.



PHOTO: ROSE M. PROUSER

products and luring new customers are beginning to realize they ought to be doing more to keep the customers they already have.

The numbers are persuasive:

- Attracting a new customer costs five times as much as keeping an old one, according to the Technical Assistance Project of Washington;
- An estimated 65 percent of the average company's business comes from its present customers, according to the American Management Association;
- 91 percent of dissatisfied customers will never again buy from the of-

fending company and will tell at least nine other people about their bad experiences, according to a study for the White House Office of Consumer Affairs.

John Tschol, of Bloomington, Minn., who teaches customer-relations skills to companies, says two developments are fueling this renewed emphasis on customer satisfaction:

1. A growing awareness of the importance of personal service in the emerging service economy.
2. Increasing competition for market share, along with higher costs of advertising and promotion.

In six years, the International Customer Service Association has exploded from 60 members to more than 1,800.

Jan Gates, an association director and the service manager of Chef Francisco, a frozen-food manufacturer in Eugene, Ore., tells why service has become so important:

"In our field, as in others, the market is maturing. My company has always sold quality. But now there are other companies out there with quality products, and the pricing is about equal."

"So we have to sell service."

For Gates, giving service means spending a lot of time in the field. When she learned that several stores in Toronto were unhappy with a distributor's delivery of her products, she flew there to investigate.

She decided that the distributor's poorly located warehouse was causing the problem, so she found him a new warehouse in a better location.

"Listening is the key," Gates says. "You have to listen to what *your* customer wants, not what the market says customers in general want."

She points out that her customer-service office gets into most of her company's functions, including inventory, order entry and credit.

That kind of top-to-bottom concern with customers is necessary to achieve real service quality, says Roland Dumas, a Stanford-trained psychologist who is research manager of Zenger-Miller, Inc., of Cupertino, Calif., a developer of training systems. "Company-wide quality efforts are not fads, technical programs or motivational programs," he says.

Dumas conducted a four-year study of quality programs and customer service in financial services, health care, retail, manufacturing and the public sector. "Service means different things to different people," he says.

At the lowest level, a company sees service as "something the customer is not entitled to, but you may give it to him as a gift," Dumas reports.

At a higher level, service means focusing on customer transactions, "but only fixing something if it is broken, the way a garage fixes customers' cars."

At the highest level, the customer is the object of the company's attention. The aim of service is "to deliver more than the customer expects but what he probably needs."

Dumas says front-line employees "must be given the skills not just to deliver quality service, but to obtain it

Training In Customer Service

Here are several companies that offer training in customer service. Some do it only in-house; others also hold open sessions, often in conjunction with universities:

Better Than Money Corporation
9201 East Bloomington Freeway
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(612) 884-3311

Career Development Seminars
206 West 94th Street
P.O. Box 33007
Kansas City, Mo. 64114
(816) 363-4373

Education Technology Consortium
P.O. Box 568
Waltham, Mass. 02254
(617) 899-6262

Kaset, Inc.
14003 North Dale Mabry
Tampa, Fla. 33618
(813) 962-7830

Keye Productivity Center
P.O. Box 23192
Kansas City, Mo. 64141
(913) 642-0460

Zenger-Miller
10201 Torre Avenue
Cupertino, Calif. 95014
(408) 257-7430

from their internal suppliers, their fellow employees upstream."

This concept of giving good service to "internal customers" eludes a lot of managers, says Dumas. An example is "a needlepoint store I know, where the customers are wealthy women with very high expectations of service."

Dumas says the store's sales people "try like crazy to satisfy their customers, but often fail. The owner is not meticulous in delivering goods and this keeps putting the sales people in tight spots."

A "lurid" example of how not to give service, Dumas says, is a newspaper in Texas, where if a subscriber telephones to say his paper wasn't delivered on time, the editor jumps in his car and delivers it himself, bringing a dozen flowers with it.


"That's ridiculous," says Dumas. "That highly paid editor would do more for his customers if he spent that time in his office, turning out a better paper and making sure it gets to the delivery people early enough so they can deliver it on time."

"What he's doing is demoralizing the poor guy who was supposed to deliver the paper but wasn't given enough copies."

Dumas admits "there is a fad for flamboyant repairs like this, but it is costly and misguided. Those companies may fix things, but they don't fix them very well, and the cost basis is too high." Companies with such a narrow view of customer service "put the monkey on the front-line employee's back, which leads to burnout and high turnover," Dumas says.

IBM is often pointed to as a brilliant example of success built on customer service. Retired IBM Chairman Thomas J. Watson, Jr., said recently that some of the company's basic principles were very simple: "Give the individual full consideration, spend a lot of time making customers happy, go the last mile to do a thing right."

That isn't too different from the sign in front of Stew Leonard's Grocery Store. There are actually two rules chiseled into the granite. The first rule—that the customer is always right—is followed by Rule #2: "If the Customer Is Ever Wrong, Reread Rule #1." ■

 To order reprints of these articles, see page 54.

Absolutely Guaranteed

By Joan Livingston

I complained to the waiter when two cockroaches interrupted my dinner in a Boston restaurant.

The waiter was both apologetic and optimistic. "We just hired what's supposed to be the best exterminator in the country," he explained.

"Bugs Burger?" I asked.

"Yes," he said. "How did you know?"

I knew because you don't easily forget a company called Bugs Burger Bug Killers—or the man behind it. Alvin "Bugs" Burger is more than an exterminator: He's a preacher, a moral philosopher and a man who believes that 100 percent customer satisfaction is every business person's responsibility.

He built his extermination business on a rigorous code of service and iron-clad guarantees to his hotel and restaurant customers. His experience shows that follow-up service can be more important to buyers than price alone.

Burger, now 53, started the extermination company in 1960 with 300 borrowed dollars and built it into a 44-state



PHOTO: DEBRA SCHULKE

Alvin L. "Bugs" Burger: He wars on pests—and mediocrity.

Exterminator "Bugs" Burger made his reputation by guaranteeing his clients bug-free premises.

operation with 15,000 hotel and restaurant clients and \$30 million a year in revenues.

Burger sold that company to Johnson's Wax, which has a pesticides division, and used the proceeds to embark on new ventures geared to his concept of service guarantees. Hospitality Purchasing Corporation, which provides furniture, fixtures and equipment to hotels, offices, convention centers and food-service companies, is off the ground and serving clients. Burger has also started GSG (for "Guest Satisfaction Guaranteed") Hotel Management Corporation and Guaranteed Results, Inc., which is seeking clients in any product or service area.

Burger's service philosophy is based on two fundamentals: (1) The promise of guaranteed results cannot simply be a marketing tool but must be built into the operational structure, and (2) the guarantees must be "self-punitive," making the cost of mistakes so high that producing the promised results is the only viable option.

He implemented that approach at the outset of his extermination business,

Joan Livingston is a Boston free-lance writer.

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when he scrawled his first guaranteed-results pledge to a customer on the back of a napkin. "I signed and dated it, and gave it to my first customer," Burger recalls. "It said, 'If I don't eliminate your problem 100 percent, I don't get paid. If you're ever unhappy, I'll give you back all the money you ever gave me.'"

That commitment was later expanded into a formal understanding in which clients are told:

- You don't owe Bugs Burger Bug Killers a penny until all the pests on your premises have been eliminated.

- If you are ever dissatisfied with our service, you will receive a refund for up to 12 months of the firm's services—plus fees for another exterminator of your choice for the next year.

- If a guest spots a pest on the premises, Bugs Burger will pay for the guest's meal or room, send a letter of apology and pay for a future meal or stay.

As you might expect, the service that underlies the guarantees is not cheap.

The company charges up to 10 times more than competitors—and it also imposes responsibilities on clients for keeping that guarantee in effect. A client might be required to increase the frequency of clean-ups, change its trash-disposal procedures or make BBBK-specified repairs.

Despite this unusual twist on the supplier-client relationship, the company continues to expand largely through word-of-mouth recommendations.

Burger traces his emphasis on service to early experiences working for other exterminators. One incident in particular triggered his decision to start his own business:

"I was assigned to a store that was loaded with rats and cockroaches, and I was supposed to spend a half hour in there a week," he remembers. "There were nests all over the building. I said, 'How can I do this in a half an hour? It's an impossibility; it can't be done.'"

"Finally I said, 'I'm going to try to solve this problem. Instead of coming in at 8:00 and leaving at 8:30, I'm going to

come in at 8:00 and stay as long as it takes, even if it's 7:00 the next morning—and that's what it took.'"

Burger describes that experience as the catalyst for his decision to establish a business with a guaranteed-results policy: "You reach a point where you rise out of . . . the mediocrity everybody allows themselves to be kept down by."

While the Miami-based company grew rapidly, Burger found himself in the position of many entrepreneurs who are, in effect, endangered by success. As the company expanded, he attempted to keep on running everything personally, as he had in the start-up days. "The company had grown beyond my capacity to handle it," he recalls. "I knew something was wrong. It took me a while to realize that what was wrong was me."

He brought in managers, established an organizational structure and instituted a system of financial management. The changes put BBBK back on track, and its success eventually attracted a sale price that has enabled Burger to move into new areas.

In his recently launched Hospitality Purchasing Corporation, Burger guarantees on-time delivery or payment of \$10,000 to the customer for every day of his delay. His hotel unit, which offers marketing and technical advice as well as management services, provides comprehensive guarantees of refunded fees and reimbursement of losses if it does not live up to its commitment.

Burger takes the time to meet all of his company's workers, spending a full day "talking philosophy" with them during their training periods and inviting them to his home.

"Managers have a fear of saying, 'You're the company—I'm nothing without you.' What I say is, 'I really care about you. I'll go to bat for you.' I also tell my people that I expect them to make mistakes. If you don't communicate this attitude—if you tell people they're no good—you'll have uptight, unhappy people, and you'll live by distrust."

Burger describes himself as man with a mission. He says that years ago he had "a vision that I would be motivating tens of thousands of people; changing the way people do business, changing people's lives." It's obviously an ambitious goal. How does he propose to achieve it?

His plan is equally ambitious: Through his own success, he says, "I'm going to force [other businesses] to offer unconditional guarantees." ■

What is a Best Western?



The image shows a man in a dark suit, white shirt, and blue tie, smiling and standing next to a wooden door. On the door is a Best Western sign that reads "Best Western INDEPENDENT WORLDWIDE LODGING". To the right of the man, on the door, is a quote: "My home office wherever I travel." Below the quote is another Best Western sign, identical to the one on the door.

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Direct Line

Information about turning your avocation into a vocation, importing, government specifications and patents.

Profit From Hobbies

I am planning to turn my stamp-collecting hobby into a mail-order business. Can you provide any information about converting a hobby into a business?
R.R., Fort Lauderdale, Fla.

For a packet of information on how to start a mail-order business, write to the membership department of the Direct Marketing Association, 6 East 43rd Street, New York, N.Y. 10017.

You might also try contacting Mike Parker, president of New Career Opportunities, Inc., at 625 N. Maryland Avenue, Glendale, Calif. 91206. Parker's company specializes in helping people turn hobbies into businesses. He says he first advises people to take a course on how to start a company. (Check the adult-education program through your local public-school system or university.)

Often, after taking such a course, people realize that it's a lot more work than they imagined.

Parker says that some people find that their favorite pastimes are no longer fun when they try to turn them into profit. Others find it's a very rewarding and lucrative experience.

Jumping Import Hurdles

How does an individual import? Do you have to get a license? If so, how and where? If not, what would be the best firm to deal with? There are a lot of fly-by-nighters.

S.A., Dallas

No license is required to import, but be prepared to deal with a lot of U.S. Customs paperwork. Most importers hire a customs-house broker to handle the red tape. It starts with a surety bond that guarantees you'll pay the government all required tariffs plus any additional penalties or fines on your shipment. You are also required to submit invoices and fill out customs documents once a shipment arrives in the United States. Brokers can handle all this. They are licensed by the U.S. Maritime Commission and listed in the Yellow Pages.

Dallas is a customs port of entry for airborne shipments. For more information, call the district customs office at (214) 574-2170, Monday through Friday,



ILLUSTRATION: WILLIAM COULTER

8:30 a.m. to 5 p.m. Ask for a specialist in the goods you want to import.

A U.S. Government Printing Office booklet, entitled "Importing Into the United States," provides an overview of the subject for beginners. It costs \$4.25 and may be obtained by sending a check or money order to the U.S. Government Printing Office, Washington, D.C. 20402.

No Help To Be Found

The federal government creates its own plastic-materials-specification system that doesn't correspond to the names and numbers of materials with which I am familiar in private business. Is there a cross-reference index or source that can help me in preparing bids on government contracts?

K.H., Rochester, N.Y.

Government specifications generally can't call for brand-name products that you would easily recognize. Instead, the specs rely on performance criteria. Unfortunately, it's up to you to figure out what off-the-shelf products meet the performance standards.

Directory Assistance

How can my company get a listing of small businesses in the Baltimore and Washington areas?

J.B., Hagerstown, Md.

There is no such list. The Baltimore County Chamber of Commerce used to keep one, but it became too costly to update, according to Dick Aarons, manager of its small-business council.

Though the chamber still has a 3-year-old list on file, many of the companies may no longer be in business. For more information, contact the Baltimore County Chamber of Commerce, 100 W. Pennsylvania Avenue, Baltimore, Md. 21204; (301) 825-6200.

The District of Columbia Chamber only publishes a list of small minority-owned companies in the Washington area. For more information, contact the D.C. Chamber of Commerce, 1411 K Street, N.W., Washington, D.C. 20005; (202) 347-7201.

Protecting Your Ideas

I want to find out about patenting formulas for cosmetics, perfumes and body oils. Do you still have to go through a lot of red tape with the Food and Drug Administration for approval?
D.S., Indianantic, Fla.

You may patent the ingredients of your creations. The Patent and Trademark Office has a brochure that tells how called "General Information Concerning Patents." Copies are available for \$2. Send a check or money order to the U.S. Government Printing Office, Washington, D.C. 20402.

The brochure also includes forms for a do-it-yourself patent application. But most people can't manage the process without a lawyer. The Patent Office doesn't give out legal advice.

You won't run into any problems with the Food and Drug Administration unless your products are mislabeled or contain ingredients that cause adverse reactions. Otherwise, the FDA doesn't get involved in regulating perfumes and cosmetics. The agency is very much involved, however, in regulating the introduction of new drugs and food additives. ■

How To Ask

Have a business-related question?

Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.



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Prospecting In The Home

By Barbara J. Bigham

Seminar leaders are finding they can do well without renting expensive halls. There's gold in them there living rooms.



ILLUSTRATION: WILLIAM COULTER

When Euna Williams finished her presentation to a bank's managers on telephone techniques, she was approached by a member of the audience.

"You were great!" the woman exclaimed. "I have two friends who would really get a lot out of the seminar. Where will you be speaking next?"

It's the kind of compliment every public speaker craves, and, though Williams had received it often, it posed a problem.

Although she was successfully selling her seminars to corporations, she kept hearing from people who wanted to attend but didn't work for large companies.

She considered renting a meeting hall at a local resort and running a seminar for individuals without corporate ties. But her instinct told her there had to be a more convenient and more profitable way to sell to those people.

Her solution: Take a tip from Tupperware, and bring the seminar into the home.

Called "cottage seminars," these in-home training sessions are springing up around the country.

Barbara Bigham is a Phoenix freelance writer and publisher/editor of the Arizona Women's Voice newspaper.

One way small businesses can arrange for affordable, informative seminars is to skip expensive hall rentals and bring the message home.

Typically, the cottage approach shifts the burden of organization and promotion to a "sponsor."

"What I look for is a person who has 10 friends—and everybody knows 10 to 15 people—to sponsor the seminar," Williams explains.

Typically, the sponsor attends the seminar for free, but is responsible for arranging the meeting place, collecting fees and serving refreshments. The meeting place is usually the sponsor's home, so there is no meeting-hall rent to pay.

For Williams, whose Phoenix-based company is called Cornerstone Resources, Inc., the cottage seminar allows her to work nights as well as days to build her business.

"Most of my corporation and convention work is done during the day," says Williams. "Most of my cottage seminars are at night. The corporations are my bread and butter, and the cottage groups are a nice offshoot. It's a totally different world."

There is often a connection, however—some of the participants in the corporate meetings attend her cottage

seminars for more in-depth information or for personal attention.

The cottage-seminar concept also has proven popular for those whose presentations don't lend themselves to large corporate audiences and for people who are new to the seminar business, and haven't yet built up the credentials demanded by major companies.

Kathy Rogers, president of Image of Success, Inc. (Scottsdale, Ariz.), finds that most corporations are not ready to hear her message about creating the proper image through personal appearance.

While they would hire a consultant to train employees in negotiating techniques or communications skills, they balk at paying someone to tell their staffs how to dress.

The alternative of holding a presentation at a resort or convention hall was prohibitively expensive for Rogers.

She found a more appropriate and profitable approach was to bring the clients together on her own. For her, the cottage seminar is "not only less expensive, but more personal. If I'm standing in front of a podium in some conference room, I can't very well explain to each participant why a certain style would be best for him or her." She limits her in-home seminars to 10 people at a time.

Gail Duffy, a nurse who specializes in

Women's Business

How To Get On A Board

Washington stockbroker Julia M. Walsh has her own strategy for getting more women on the boards of directors of the nation's corporations. When she is asked to serve on a board, she makes the inviting company guarantee that before her term is up, it will have another woman on the board or she won't stand for re-election.

Walsh, managing director of the Julia M. Walsh & Sons division of Tucker Anthony & R.L. Day, Inc., sits on the board of Pitney Bowes.

Being on a board is nice part-time work if you can get it, she says, paying \$25,000 to \$50,000 a year for major corporations and \$6,000 to \$12,000 a year for smaller ones—plus perks. And it gives you a chance to learn more about business and have a say in how companies are run.

In a talk at Babson College in Babson Park, Mass., Walsh had this advice for women who want to get on boards:

- Get someone to nominate you.
- Make yourself visible locally and nationally through involvement in chambers of commerce, universities or the like. If you perform well, you will get noticed by people who have the power to suggest you and promote your ability.

(She urges women to push organiza-



PHOTO: TERESA ZARALA

Being on a board gives you a chance to learn more about business, says stockbroker Julia Walsh.

A strategy for getting more women aboard; another that seems designed to turn them off.

tions such as their alumni or business groups to promote female representation on company boards and to nominate women.)

- Concentrate your efforts on middle-sized, local companies.

Not only is getting on a smaller firm's board a more realistic goal than reaching for General Motors or AT&T, but such companies give you the chance to learn how to be a board member and to make real input.

- Don't worry about being a token woman.

Says Walsh: "Once you're on one board, it's twice as easy to get on the next. So take the token anytime."

Should You Join The Family Firm?

The family business offers many women the quickest route to the top. But is the family enterprise for you?

To help answer that question, the Wharton School at the University of Pennsylvania sponsors seminars called "Women in Family-Held Businesses." They cover such topics as the strengths and weaknesses of the family business and adult female development.

The next seminar will be March 27-31. For information, write to The Office of Executive Education, The Wharton School, University of Pennsylvania, Philadelphia, Pa. 19104-6359; or call (215) 898-1776.

A Conference For Women In Business

Reserve early if you plan to attend the American Woman's Economic Development Corporation's Eighth National Conference for Women in the Businesses of Fashion, Beauty, Fitness, Food and Home Fashion on Saturday, February 20. Last year's event drew 3,700 women, and it gets pretty crowded in the New York Hilton, where the conference is held.

AWED is planning workshops for women in corporations, business owners and would-be entrepreneurs, with such speakers as Laurie Mallet, president of Williwear; Nina McLemore, president of Liz Claiborne Accessories; Annette Golden, executive vice president of Revlon, Inc.; Jeanette Wagner, president of Estée Lauder International, and Jane Evans, general partner in Montgomery Securities, a San Francisco firm.

Topics include taking the fear out of managing people, negotiating to win, how to run a service business, when to

make a career change and the psychological elements of success.

Workshops will also address such interests as marketing, advertising, public relations and the mechanics of starting a business.

The \$140 registration fee covers a morning coffee hour, three workshops, lunch and an end-of-day reception. For reservations or information, write the American Woman's Economic Development Corporation, The Lincoln Building, 60 E. 42nd Street, New York, N.Y. 10165; or call (800) 222-AWED or (212) 692-9100.

Women's Business

Women At War With Each Other

"Women are unaccustomed to working for the greater good."

"Men fight to win more power and higher salaries; women fight for the option to quit the game and go home."

"Women will generally accept the male mandates, no matter how irrational, before they will believe the most logical argument of another woman."

Do these statements make you angry? Welcome to *Women vs. Women: The Uncivil Business War*, by Tara Roth Madden (AMACOM).

This puzzling book apparently intends to help women understand why "females aren't advancing all that far or fast in today's challenging work world" and to offer guidance on overcoming what Madden sees as one of the main reasons: women's propensity for undermining each other in the workplace.

According to Madden, a free-lance writer who was once employed by McDonnell Douglas Corporation, men in the corporation don't worry about competition from women because women are too busy pummeling each other. "From ringside corporate seats, they observe women battling one another in inelegant catfighting," she says. A few pages later, she refers to "a hissing and screeching catfight."

And still later: "This sort of catfighting allows men to pit women against one another for 'fun.' It encourages competition. But not for promotions. Women fight one another for the attention of men."

Women vs. Women puts women down for wanting to work part time (even if the rest of the time is used to fulfill heavy family responsibilities). They are put down for moving in and out of the work force (but who will have the children if they won't?). They are put down for trying to balance personal lives with their professional lives. They are even put down for starting their own businesses (never mind that many of these businesses are substantial).

The real action for Madden, apparently, is only in the corporation, and if you don't make it there, you don't make it anywhere. "Reaching the top of the corporate ladder is the all-American



PHOTO: JEFF BLUM/WESTLIGHT

If you balance work and home, are you hurting the cause of women who want to make it to the top?

woman's professional dream," she says.

This is not to say Madden isn't right some of the time. Her point that women who prefer temporary or part-time work destroy women's power base in the work force is worth considering. And she is certainly right in urging women to work together to help one another advance.

But her solutions are disappointing. She challenges women to become "Peacemongers" by calling a cease-fire and becoming more accepting of one another. She suggests "Trial Distancing"—a ban on female friendships at the office—to give women space to examine their problems and "initiate new ways of thinking and start patterning in a new direction."

A third solution is to single out achieving businesswomen and make role models out of them by giving them recognition in well-publicized events. And last, she proposes that women initiate, in their companies, programs of "Hatred Management" that could be taught as part of courses on managing interpersonal relationships. Exploring women's issues in a course might be helpful to a corporation and it might be helpful to women. But would you call it "Hatred Management"?

The best that can be said for this book is that it's controversial.

—Sharon Nelton

Are Women To Blame?

Is Tara Roth Madden right? Do women subvert other women in the workplace? Or is there another side to this story?

Let us know what you think by writing to "Women's Business," *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Your comments will be published in a future issue.

Honing Skills

How do women entrepreneurs improve or maintain their business skills? They attend seminars, according to a recent study by Brush & Coogan Associates, a management consulting firm with offices in Barnstable, Mass., and North Conway, N.H.

Of the 143 women business owners responding to the survey, 79 percent said they went to seminars to improve

their skills; 65 percent sought expert advice; 62 percent turned to self-help books; and 61 percent attended trade-association workshops.

The biggest obstacle to running a business was identified by 21 percent as keeping good employees—ahead of "doing it all" (16 percent) and cash flow (9 percent).

"Fellow entrepreneurs" were seen as the best sources of business guidance by 58 percent, followed by accountants (43 percent), women in business (39 percent) and experts in the field (38 percent).

Power By The Hour

By Martha I. Finney

The frost has only just begun to glaze the pumpkin in rural New Hampshire, but Betty Moody is already gearing up for Christmas. High on her list of things to do is expanding her work force almost 50 percent.

Moody is general manager of Garnet Hill, a mail-order company selling sweaters, blankets, sheets and other products made of natural fibers, tucked among the mountains in Franconia. Each year the small firm adds 10 Christmas temporaries to its core staff of 25. From October 1 through December 24, they are busy keypunching, packing, shipping and cleaning.

"In our community it's nice to hire temps, because they are mostly moms and dads who could use the extra money right before Christmas," says Moody. "We hire temps with the understanding that it's only for the Christmas season. On average, though, one temp a year stays on permanently."

Garnet Hill, like many small companies throughout the country, uses a temporary worker for more than just replacing a sick secretary. Temporaries offer valuable personnel management opportunities: flexibility with no strings attached.

According to an Administrative Management Society survey of its 560 member companies, 9 out of 10 U.S. businesses use temporary help. While companies such as Garnet Hill sometimes hire temps on their own, firms usually turn to temporary-help services. These services will recruit, test and train their own stable of temps and place them with the client company. The services also will pay the temporaries, withhold taxes and provide benefits.

Temporary-help services filled 806,000 daily orders last year. Roughly 2,600 services paid their temps \$7.3 billion in 1986, according to the National Association of Temporary Services. While many of the daily assignments come from offices that need to cover for an absent receptionist or file clerk, companies are finding creative ways to use temporary services to help their businesses handle predictable crunches.

For instance, a seasonally oriented company like Garnet Hill may need a major transfusion of help only once or



PHOTO: RICHARD DERE

twice a year. If temporary help was not available, such companies would be forced to overload their permanent staffs during the peak periods, overstaff in slow times to meet peak demand or hire and fire full-time employees as workloads indicated.

Companies can find temporaries useful in other circumstances. A company opening a new office might want to

Temporary workers can give your company flexibility without strings attached.

David McHone of Argonaut Insurance in Chicago relied on temps when his office had to double in size.

take its time hiring permanent workers.

"My office had to more than double overnight," says David McHone, director of human resources at Argonaut Insurance Company in Chicago. "We consolidated five of our Midwest divi-

Reactivate Your Retirees

When the Hartford, Conn.-based Travelers Companies surveyed their employees who were close to retirement, Travelers learned their employees had plenty of energy left. They were ready to retire, but they weren't ready to quit working. Of the employees 55 years and older, 83 percent said they would like to come back to Travelers on a temporary basis. Today the corporation has a pool of more than 700 retiree temps (some retired from different companies), and as many as 250 are on the job each day. The oldest is 83.

Moral? Your retirees could be your best source for short-term work.

"They know your company, they know its culture, and they might even know the job at hand," says Donald K. De Ward, Travelers' director of employment.

"They're very motivated, and their attitude is so very positive."

Because the retirees' benefits are already covered through their retirement plan, Travelers does not have that cost burden. "We can afford to pay them at an attractive rate, and it's still considerably less than what we would have paid a temporary-placement agency," says De Ward.

"A small or new company probably doesn't have many retirees yet," he says. "But in many communities, non-profit placement agencies can help you find a retiree temp who can do the work."

MANAGING YOUR BUSINESS

Power By The Hour

To help Garnet Hill, a New Hampshire mail-order firm, meet the crush of holiday business, general manager Betty Moody relies on temps like Doug McCann (inset photo).



sions and moved them to the new Chicago location. The original office, once only a claims-serving operation, suddenly became full-service. There was no time to hire the additional support staff."

Because the clerical staff from the newly closed regional offices did not want to move to Chicago, McHone turned to a temporary-placement firm

for support help. "We weren't even staffed to handle the recruitment process," he says.

Adia Personnel Services, a worldwide

firm that has offices in Chicago, met extensively with McHone, determined exactly what skills he was looking for and immediately set him up with a staff. The temp team gave McHone a chance to evaluate certain job descriptions and long-term staffing needs.

Adia, which also has a permanent-placement division, worked with McHone to find temps that might qualify for full-time jobs. "At least 90 percent of my permanent clerical staff is from Adia," says McHone. "For a business that is new or new in town, using temps in the hiring process is the safest way to go. The cost saving is fantastic. You have a chance to define a job function. You also have time to look at the employee, and the employee has time to look at you." Services are generally happy to cut a deal with the client for permanent placements. They usually require the client company to compensate for "liquidated damages" with a fee or added weeks on the temp's assignment while still employed by the service.

Businesses that are undergoing automation are also turning to temporary services to help with the transition.

"When companies are transforming from traditional offices to automation, there is built-in crisis," says Mitchell Fromstein, president and CEO of Man-



PHOTO: TONY TALBOT

Get The Best From Your Temp

Not all temporary services are created equal. There are excellent ones that recruit and train first-class workers and fill the client's order exactly. But there are others that will ignore the client's specifications and randomly fling their temporaries into the daily marketplace—at the client's expense. David McHone, human resources director of Argonaut Insurance Company, offers this advice for getting the most for your time and money:

- Choose your service carefully. An efficient service will send a representative to your office so that the individual can become familiar with your company's equipment, personality and standards. For each placement, the rep should call you in the morning to make sure the temp is satisfactory. Active interest shows the service is working to place just the right people.

- Make the temp feel part of the team. Introduce the temp to the staff people he or she will be working with.

- Be sure at the outset that the temp has a clear understanding of what the assignment entails.

- If you use temps frequently, assemble an orientation booklet outlining office procedures and containing samples of letter and memo formats, important phone numbers and frequently used acronyms.

- Make sure everyone understands the temp's line of authority. The temp should have a direct supervisor who controls the work flow and can answer questions.

- If the temp is not qualified, make sure a replacement is sent immediately. Let the service tell the temp that a replacement is coming.

- Keep your eye out for temps who

are especially competent and request those individuals by name when you place a later order with the temporary-help service.

Rates for temporary help vary throughout the country, depending on cost of living and the demand and availability of the specific skill you are looking for. You also have some negotiating power over the rates you will be charged. If a temp or a temporary service wants your business badly enough, the rate might be reduced if it is too high for your budget.

Finally, you have the choice between hiring your temp through a service or finding one on your own. You might save money with an independent temporary because you pay the temp's hourly rate without the added service costs, roughly between 30 percent and 50 percent. But a temporary service spares you the recruiting, testing and training costs. A service will also assume all the standard employer/employee obligations, such as tax withholding, benefits and discipline.

The successful use of temporary workers starts with careful hiring by the temporary-help service itself. Here Catherine Candland (right) of

Advantage Temporary Services, Inc., of Washington interviews job applicant Rosa B. Hamilton.

power, Inc., in Milwaukee. "They must get their staffs quickly up to speed on the new equipment. They must also hold down the fort while the personnel are busy with training. Temporaries can help get the work done, train the staff and get the new system running."

And temporaries sometimes provide more help than an employer anticipated.

After Abbott Laboratories' office in Stone Mountain, Ga., acquired several computers, the three-person staff found both the equipment and the instruction manual intimidating. A temporary, brought in for an unrelated assignment, saw the idle computers, sized up the problem and set to work making the machinery come alive. He then taught the others how to use the computers and the software.

Despite their conveniences, there are some disadvantages to working with temporaries. Managers could waste precious time simply orienting the visitors to standard office routine and procedures. Company secrets could be ex-



PHOTO: T. MICHAEL KEZA

posed to strangers. There are also some services that are more interested in filling orders than in making a perfect fit.

"It's a meat market out there," says McHone, referring to pre-Adia experiences. "I got a transcriber once who threw the headphones on the floor, screamed 'I hate this machine' and ran out the door."

The occasional clunker notwithstanding, 90 percent of the nation's companies are willing to take their chances again and again.

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Entrepreneurial Street Smarts

By William Hoffer



6. This Russian immigrant became a cosmetician to the stars.

Nation's Business is observing its 75th anniversary in 1987 with September's anniversary issue and special articles like this in other issues.

Many of the giants of American business had only the briefest of educational resumés. They learned their business techniques "on the street" rather than in the classroom. Here are the stories of seven entrepreneurs who proved the contention that America is a land of opportunity. Do you have enough "smarts" to identify them? (Answers on page 64.)

1. He was only 6 years old when his parents divorced in 1908, and he moved with his mother to Chicago. The boy preferred to tinker with his various inventions, rather than study his text-



2. Millions have called him to solve their hard-water problems.



4. Her misspelled name means affordable fashion to many women.

books. Directly inspired by Horatio Alger, he did not include school in his blueprint for success. He was in too much of a hurry.

At 16, lying about his age, he joined the U.S. Navy and was trained as a radio technician. After the service he eventually parlayed his on-the-job experience into a job as a design engineer with Galvin Manufacturing Company, a Chicago-based manufacturer of radio chassis.

Conventional wisdom at the time held that the government would never allow radios in automobiles—they would be too distracting. Flouting that theory, the young technician invented the first automobile radio. When no government objections materialized, the radio became his chief product, and the company changed its name to Motorola to capitalize upon its new success. By 1931, the young inventor's salary and patent



PHOTO: UPS-BETTMANN NEWSPHOTOS

7. He helped make radio and TV household items.

royalties were earning him \$31,000 a year, enabling him to realize his ambition of owning a biplane.

Applying radio technology to his new passion, he invented what soon became the standard airplane-guidance device, and he followed this with the invention of a miniature autopilot system. In 1939 he quit Motorola to launch his own aircraft company in Grand Rapids, Mich., and cemented his future by fulfilling more than \$100 million worth of defense contracts during World War II.

After the war, he conceived the idea for a product geared to the needs of hard-traveling executives. When his own board of directors scoffed at the plan and voted it down, he sold his 23 percent interest in the company for \$14.3 million to finance the new enterprise, based in Wichita, Kans. First-year sales totaled \$52 million.

2. He dropped out of college in his sophomore year and began buying cheap, unwanted prairie land around his hometown of Porter, Minn., sowing it with flax and then selling it for a profit. He quickly acquired the nickname "Gold Dust."

By the time he turned 28 in 1921, he had built up holdings worth \$200,000. Then came the farm recession. Penniless, "Gold Dust" moved with his wife and baby to his mother's home in St.

Builders of many of America's businesses had no formal schooling; they made their opportunities and capitalized on experience.



PHOTO: UPI-BETTMANN NEWSPHOTOS

1. His passion for biplanes turned into a multimillion-dollar business.

Paul. The day after the move, he encountered an old friend who was selling a water-softening device. "Gold Dust" eventually launched his own water-softening company, which failed during the Depression.

A two-time loser, the indefatigable entrepreneur finally succeeded by changing his marketing concept. A water softener was considered a luxury, and sales resistance was high. So he decided to lease them, marketing a water-softening service rather than a device.

He started this new approach in 1936, using \$50 in savings and a small bank loan. By the time he retired in 1965, annual sales were \$22.5 million.

3. One of 11 children born to a Menonite family in Stevensville, Ontario, he became a clerk in a grocery store when he was barely into his teens. There, he was intrigued by a recurrent problem. Grocers purchased cheese in huge blocks, slicing off chunks to fulfill customers' requests. Spoilage was an ever-present cost of business.

In 1916 he patented a method of processing cheese by blending, pasteurizing and packaging it in small portions, thus assuring his own private slice of the history of American business.

4. Her maiden name was Lena Him-



5. Even fire couldn't deter him from creating "the very best."

melstein. She immigrated from Lithuania at the age of 16 and found work in a New York lingerie factory at \$1 per week. In 1899 she married, but her husband died six months after their son was born. The young widow, desperate to survive, pawned her only possession of value, a pair of diamond earrings that were a wedding gift from her late husband. She used the money to purchase a sewing machine and set to work making lingerie in her West 112th Street apartment.

One afternoon in 1906 she journeyed to the bank to open a savings account for the \$300 she had managed to save from her earnings. When she realized that she had misspelled her first name on the deposit slip, she was too shy to correct the error, and the new name stuck.

One historic day a customer asked for "something pretty" that she could wear during pregnancy. Flouting Victorian precepts, the seamstress designed the first line of maternity clothes.

In succeeding years, she added other specialty clothing lines for oversized women, tall women and chubby teenagers. Upon her death in 1951, sales had reached \$50 million a year.

5. He began work at the age of nine when his father, an itinerant preacher,



PHOTO: UPI-BETTMANN NEWSPHOTOS

3. This inventor found a way to solve grocers' spoilage problems.

failed to provide the family with adequate income to maintain its Norfolk, Nebr., home. For a time he peddled perfume door-to-door. Later he added a line of picture postcards imported from Europe. These were elaborately designed, relatively expensive and intended for use only twice a year, on Christmas or Valentine's Day.

At the age of 18 he took his supply of postcards to Kansas City, Mo., to wholesale them to druggists. The business grew to the point where, now joined by his brother Rollie, he opened a warehouse.

On Jan. 12, 1915, fire wiped out his entire stock. Rather than quit, the entrepreneur decided to expand. Believing that Americans, less formal than Europeans, could be sold a cheaper line of cards for many more occasions than Christmas and Valentine's Day, he borrowed money, bought his own engraving firm and was soon back in business with a whole new line of cards.

From then until his retirement in 1966, no new greeting-card design could go into production without his approval.

6. He dropped out of synagogue school in his native town of Lodz (then a part of Russia, now a part of Poland) at the age of 13 to become a makeup boy with a traveling opera troupe. In 1904, at the age of 27, he immigrated to

Entrepreneurial Street Smarts



the United States and immediately set up a wig and makeup concession stand at the St. Louis World's Fair. Later he set up a small cosmetics shop in Los Angeles.

In 1914, he got a chance to apply his makeup skills on an unheralded actor named Henry B. Walthall, working in a D.W. Griffith film. It was the first time a movie actor worked in screen makeup.

The cosmetics man became known for his willingness to rush to a shooting

location to help out in an emergency.

An innovator, he developed a new type of cream makeup more suitable for film than the traditional stick makeup used by stage actors. He also developed special makeup formulas for Technicolor films.

He became the cosmetician for Mary Pickford, Gloria Swanson, Joan Crawford and many other stars. Capitalizing upon the publicity he garnered from these glamorous associations, he opened "the world's largest cosmetic

factory," which marketed his products worldwide.

His sons, who continued the business after his death, sold out to Norton Simon in 1973, for a sum reported as \$480 million.

7. When his father died in 1906, he left school to work as an office boy for American Marconi. After a few years he became a telegraph operator (an event that gave rise to the probably apocryphal story that he first relayed the news of the sinking of the *Titanic* in 1912).

Although the young man had an engineering bent, he decided to switch to management, where, he said, "the money is coming in."

In those days American Marconi was concentrating its efforts on the transmission of radio signals from one station to another. But the aspiring manager developed another concept, which he detailed in a 1916 memo to Marconi's president, Edward Nally. He wrote: "I have in mind a plan of development which would make radio a 'household utility' in the same sense as the piano or the phonograph. The idea is to bring music into the house by wireless." He did not invent the term "broadcasting," but he was one of the first to envision its potential.

As radio became a reality, the young executive rose to general manager, then vice president of the renamed company.

In the '20s he was already pondering the possibility of television. Sensing the coming marriage of communications technologies, he formed a motion picture company in 1928, of which his parent company owned 20 percent. By 1932 he was in charge of both.

After World War II, he concentrated on the development of television, helping to bring it to its present state as the nation's favorite medium. **B**

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Answers To The Street Smarts Quiz

1. William P. Lear
2. Emmett J. Culligan
3. James Lewis Kraft
4. Lane Bryant
5. J.C. Hall (Hallmark)
6. Max Factor
7. David Sarnoff (RCA)

Making It

Can the brass ring look like an ad about military contracts—or even like a baby's stroller? Ask these entrepreneurs.

Merrily They Roll Along

Have baby, will jog: That's the motto of Phil and Mary Baechler, shown here in their Yakima, Wash., shop. They manufacture racing strollers so runners don't have to give up exercise

for parenting. Children can ride safely and comfortably in one of five stroller models, including the twins' version at left.



PHOTO: JOHN RUSSELL



PHOTO: RED HANSON

Thanks to Phil Baechler's mechanical skills and interest in jogging, running can be a family affair. He and his wife, Mary, make tripod-shaped strollers that allow joggers to pound the pavement while treating their babies to smooth rides.

"You can run at your running pace and push it with one finger, and it will run true," says Mary.

Phil Baechler, an avid runner, made the first racing stroller in the spring of 1983, when their first child was an infant. He had spotted a conventional baby stroller at a yard sale, and "a light went off in his head," Mary says. He bought the stroller and began modifying it into a racing stroller—using bicycle wheels and tires—in the garage of the Baechlers' Yakima, Wash., home.

After six prototypes, Phil Baechler was satisfied. The stroller he came up with can withstand daily 10-mile-plus runs until a child outgrows it (4-5 years). Says Mary, a convert to jogging since the stroller mobilized her and her children, "We build them so they can take abuse. We aimed at lightness and strength."

Soon after Phil and Mary began using their stroller, they discovered a demand for the invention. Whenever Phil used one in a race, he would end up selling it to a fellow athlete.

In late 1983, Mary's father convinced the couple to market the invention. They sank \$8,000 into the venture. Phil kept his job as an editor with the *Yakima Herald-Republic*, while Mary managed and ran the company, Racing Strollers, out of their home.

Last year, 1,600 racing strollers were sold, grossing \$250,000. Mary says that if business continues at its present pace, revenues will more than double in 1987.

"The hardest part now is keeping up with growth," she says. Within the past year, demand for the strollers allowed the firm to move into a 3,400-square-foot facility in Yakima and to hire eight employees. Mary says they plan to take in outside capital and add more space. Phil is considering quitting the paper to handle marketing and sales for the company full time.

Since neither he nor Mary, a former midwife, have had formal business

training, they hired a professional business adviser last fall. "He makes us look at all of the business and think of the long term," she says.

The first thing he told the Baechlers to do was raise their prices. Mary says she hated to do it, but, after analyzing how much it actually cost to produce each stroller, she conceded, and the prices rose from around \$175 to \$225 for the basic model.

Racing Strollers produces five models, each with a lifetime guarantee. The original, the Baby Jogger, has 20-inch wheels and holds a child up to five years old. The Mini Jogger, with 12-inch wheels, is designed for the city dweller who has little storage room and only runs about four miles a day. There is also a stroller for twins, the Twinner, which has 20-inch wheels and is guaranteed to hold at least 80 pounds.

The other two models are designed for handicapped children. Mary says she enjoys selling those models the most. "No one has ever met this need before," she says. "They add so much to a customer's life."

—Rachel Orr

PEOPLE

Former schoolteacher Willie Cam Nimmons holds a firefighter's field pack that her company, Infinite Creations, makes for the Federal

Supply Service. It is just one of many items the Bamberg, S.C., company produces under government contract.

First She Did Good, Then She Did Well

The domestic textile industry is facing hard times these days, but Willie Cam Nimmons, founder and president of Infinite Creations, Inc., in Bamberg, S.C., is finding nothing but prosperity.

Ten years ago, Nimmons was a college math teacher. Today, she is a defense contractor and a major producer of industrial textiles.

Last year, her firm won a \$1.6 million federal contract, one of the largest ever awarded to a South Carolinian, to produce 7.4 million polypropylene sandbags for the Defense General Supply Center in Richmond.

It was not the first defense contract for Infinite Creations. The company has made thousands of basic black purses for women in the military and also makes pockets to hold ammunition clips for M-16 rifles and for 9-mm Beretta pistols.

"I never imagined anything of this scope when I started," says Nimmons. "Sometimes I just want to pinch myself to see if it is all real."

After earning bachelor's and master's degrees in mathematics from South Carolina State College in Orangeburg, Nimmons taught math in South Carolina public schools and at Voorhees College, in Denmark, S.C. She was active in local church, civic and educational affairs.

Nimmons' business evolved out of her job as a part-time social worker. She worried about the local unemployment situation and decided to do something about it.

"I noticed a lot of idle people about town," she says. "Many were on welfare, but most looked like they could work. So I decided to investigate."

Nimmons began a nonprofit company, Quilting Co-op, which made stuffed animals and quilts from scraps of cloth. The products were sold on the streets of Bamberg, but Nimmons found many buyers reluctant to purchase from a nonprofit group. "I looked at the alternatives and came to a conclusion that I should start a profit-making business and try and make a go of it."

The decision to leave the security of a teaching career was a difficult one. Even her husband and children advised against it. "I thought a long time before I got nerve to follow my own instinct," Nimmons says. "But finally I



PHOTO: SAM JONES

said to myself, 'I'm just going to have to take a chance. I need to do something more challenging.'"

When she incorporated Infinite Creations, Nimmons made the switch from stuffed animals to such items as ladies' handbags, garment bags and duffel bags.

Operating out of a building that previously housed a supermarket, the company landed national contracts with retailers that included F.W. Woolworth and K mart.

But it was the late '70s, and the domestic textile industry was going into a downturn. Nimmons' retail customers began to turn away from the products of Infinite Creations to buy cheaper foreign products instead.

"I could see disaster coming," Nimmons recalls. "I knew that if something was not done quickly, my company would go under." But unlike many bigger firms that were not able to adjust to the import crisis, Nimmons' company was small and flexible.

Reading financial journals, Nimmons noticed Department of Defense ads offering free workshops on how minority businesses could obtain military contracts. "So I started going to those workshops," she says. "When I think back, it did seem like a lot of work and a lot of red tape. I almost didn't go. But I saw the Defense Department was

buying a lot of items. I knew my company could produce a lot of them with some training."

She was right. In the spring of 1986, Nimmons and her work force of 35 moved into a new, 32,000-square-foot plant in Bamberg County Industrial Park. Employment doubled soon after that, and the company now operates out of the same plant with 120 workers.

Sales have grown from \$44,000 in 1977 to \$2 million last year. While Infinite Creations' earlier defense contracts were granted under minority set-aside programs, 75 percent of current contracts were obtained through open bidding.

In October, 1986, the Department of Commerce named Nimmons National Minority Entrepreneur of the Year.

Infinite Creations has become a family affair. While Nimmons oversees the company as president, a son works as chief engineer, and a daughter handles production and personnel. A younger son, who is in college studying industrial engineering, plans to join the business after graduation.

"Having family members involved in the business is an advantage," Nimmons says. "We talk all the time. They give my brain a rest by helping, planning and providing me with a lot of good ideas."

—Ron Chepesiuk

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PEOPLE

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Risa, The Corporate Stork's president, is in business with her mother, Lee. Ma Bell and Baby Bell? It figures.



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COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

ISSUE

BUSINESS IMPACT

BUSINESS MESSAGE

Trade/Conference Bill

Increased competitiveness for U.S. business can be achieved best by more open, liberalized trade. This requires opening of markets by all trading partners of the United States and their avoiding protectionist measures that keep foreign products out or otherwise put competitive foreign products at an unfair disadvantage. Trade legislation that is tough enough to counter unfairness but is not protectionist could help to open markets.

Members of House-Senate Conference: Fairness dictates that all parties comply with a trade agreement. Support provisions in both the House and Senate trade bills that would mandate retaliation against unfair practices that violate international trade agreements. Current law gives the President so much discretion in taking retaliatory action that it does not pose a credible deterrent or correction to trading partners' unfair practices.

Jobs Tax/Wage Base

Employers may be required to continue to pay a temporary "jobs tax" scheduled to expire on Jan. 1, 1988. The levy was imposed to pay a debt accrued under the extended-benefits program of the federal unemployment compensation (UC) system. Also, the taxable wage base under the UC system may be indexed, beginning in 1989. These increased taxes on businesses have been proposed solely to raise revenue, not to meet needs of the UC system. These taxes would be great disincentives to job creation and would impose unfair burdens on employers.

Members of the House and Senate: Oppose extension of the temporary "jobs tax" that expires on Jan. 1, 1988. This tax was enacted in 1976 solely to pay a debt resulting from the extended-benefits program. Final payment to the federal UC system was actually made last May. Also, reject indexing of the taxable wage base of the UC system. Both measures are proposed as part of the budget reconciliation bill solely to raise revenue, not to meet the needs of the UC system and would be disincentives to job creation and would burden employers unfairly.

Davis-Bacon

On federally funded construction projects, employers are forced to pay "prevailing wages" under the Davis-Bacon Act. Such wages usually are based on union scales and are required for all contracts of \$2,000 or more. Davis-Bacon prevents many small businesses from bidding on federal construction projects. Those businesses would benefit from repeal or substantial reform of this act, as would taxpayers generally.

Members of the House: Support legislation that reforms the Davis-Bacon Act and opens the federal construction market to more small businesses. Such a proposal will be offered by Rep. Charles W. Stenholm (D-Tex.) and Rep. James M. Jeffords (R-Vt.), when the House considers a bill, sponsored by Rep. Austin J. Murphy (D-Pa.), that would expand, rather than truly reform, the Davis-Bacon Act.

Plant Closings

The Senate's version of the trade bill would require businesses with more than 100 employees to give 60 days' advance notification of plant closings or layoffs involving 50 or more employees. This notice would have to go to each affected employee, affected local governments and a state dislocated-worker unit. Severe penalties would be assessed for each violation.

Members of House-Senate Conference: Inflexible plant-closing controls are unwarranted and inappropriate. Reject the Senate's provision requiring businesses to give advance notification of closings or layoffs. Such mandatory notice would harm financially troubled businesses and do nothing to improve the competitive position of U.S. industries.

Taxpayers' Bill of Rights

The Taxpayers' Bill of Rights would establish an inexpensive and quick means to resolve disputes with the Internal Revenue Service. Smaller businesses, unable to afford expensive legal and accounting advice, will benefit especially from this bill.

Members of the House and Senate: Co-sponsor the Taxpayers' Bill of Rights, which offers fundamental protections to all American taxpayers by redressing an imbalance between the authority of the IRS and the rights of taxpayers. These reforms are long overdue.

Where I Stand

Results of this monthly poll are forwarded to top government officials in the White House and Congress.

1. Intensify Scrutiny Of Contractors?

Rep. Charles E. Bennett (D-Fla.) has introduced a bill in the House to empower bureaucrats to scrutinize commercial as well as government-related business records of many firms with defense-related contracts. Proponents believe a new mechanism is needed to

monitor and penalize those deemed to earn "excessive" profits. Opponents say that substantial audit and review costs incurred by contractors would be passed on to taxpayers in the form of higher prices, and that the bill would give government officials access to sensitive records of commercial transactions. Should this legislation be enacted?

2. Study Workers' "Comparable Worth"?

Legislation before the House Post Office and Civil Service and Senate Governmental Affairs committees would establish a study commission on the "comparable worth" of the federal work force. Under the comparable-worth doctrine, wages paid for male-

dominated jobs must be equal to those paid for female-dominated tasks deemed to be of equal societal value. Proponents say that embracing this concept would ensure pay equity between men and women, but opponents fear that it would take wage-setting authority away from management. Should a federal comparable-worth study be conducted?

3. Expand Davis-Bacon Act?

Members of the House could vote soon on a bill to increase the numbers of contracts subject to the Davis-Bacon Act, a super-minimum wage law for the construction industry. The proposal would require grouping of related projects, and Davis-Bacon would apply if

the value of the group exceeded \$50,000 for new construction and \$15,000 for repairs. Proponents believe that bringing more projects under the act would further prevent unfair low-wage competition. Opponents counter that Davis-Bacon already costs taxpayers \$900 million to \$2 billion a year in excessive wages. Should the Davis-Bacon Act be applied to more projects?

Verdicts On September Poll

Here is how readers responded to the questions in the September issue.

	Yes	No	Undecided
Should new restrictions be put on IRS procedures?	85%	10%	5%
Do you oppose increasing taxes to cut the budget deficit?	86%	10%	4%
Should the "temporary" jobs tax be extended?	19%	76%	5%



Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062.

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Personal Management

To Your Health

By Norman Brown

Kidney-Stone Surgery One Day May Pass

Bob Quinn, a 52-year-old employee-relations manager for a Hartford, Conn., insurance company, ran three miles a day, watched his cholesterol and didn't smoke.

But he awoke not long ago to stabbing pains in his back, just below the ribs. An ambulance rushed him to the hospital, where the attending physician ordered a sonogram.

The computer-enhanced scan revealed a stone lodged in the ureter, which carries urine from the kidney to the bladder. Armed with this information, a urologist inserted a cystoscope through the urethra and bladder up into the ureter and removed the painful stone. A week later, Quinn was running again.

Sonography is just one of the newest weapons in the arsenal against kidney stones. In time, surgery may become a rare occurrence.

A kidney stone usually begins as a tiny speck of solid material in the kidney. As more material clings to the first speck, it gradually increases in size. Over time, a stone may grow from a tiny pebble to one the size of a golf ball.

A high-protein diet may stress your kidneys by causing them to excrete excess nitrogen along with fluid, says Dr. Elliott J. Howard, internist at New York's Lenox Hill Hospital and author of *Health Risks* (Body Press, 1986). Low-carbohydrate diets also can raise levels of uric acid, which can lead to gout and kidney stones, he says.

There is also concern that too much calcium can cause kidney stones, and people with excess calcium in their urine may be advised to eliminate milk and cheese from their diets.

If you suffer from kidney stones, see your physician at regular intervals to make sure there is no damage to the

High-tech treatment comes to an ancient scourge. Lithotripsy uses shock waves to shatter stones so that the patient does not have to undergo surgery.



PHOTO: BILL BREWER—MEDICORP

kidneys. The type of stone will determine the treatment. Uric acid stones can sometimes be dissolved with a drug (allopurinol) used to treat gout. But, since 75 percent of stones in the urinary tract are composed of calcium oxalate, patients often are instructed to drink more liquids to dilute calcium levels.

Very small stones seldom cause problems, since they are easily carried into the ureter and passed in the urine. Even large stones can remain harmlessly in the kidneys. But, because kidney stones often produce excruciating pain as they pass through the narrow ureter, they account for 350,000 hospital admissions annually.

"Not all stones need to be removed," says Dr. Robert S. Boltax, clinical professor of surgery at Yale School of Medicine. About 90 percent may pass spontaneously in two or three days. If there is severe pain, the patient may be told to take medication as well as to increase the intake of fluids to help the process.

Surgical removal of kidney stones—lithotomy—requires an abdominal incision through which a catheter is inserted. The end of the catheter closes around the stone, and it is removed—a procedure referred to as "basket extraction."

A similar, nonsurgical procedure called cystoscopy is used when the

stone has already passed into the ureter. The catheter is inserted directly into the ureter; no incision is required, and local anesthesia is generally all that is needed. Cystoscopy is usually reserved for recurrent stones, if obstruction is suspected or for unexplained blood in the urine.

Two other methods of treatment improve on traditional surgery. The first is lithotripsy, which uses a water bath and shock waves to shatter the stones into pieces small enough to pass through the ureter. The average treatment lasts an hour, according to Dr. Donald P. Griffith, urologist at Baylor College of Medicine in Houston, and is used for large stones in the kidney or upper ureter. There is mild pain during and after the procedure, but most patients return to work in a few days.

Dr. Stephen Dretler, a urologist at Massachusetts General Hospital, has used a laser beam to pulverize stones in the lower part of the ureter so that fragments can pass easily in the urine.

But until both procedures are more widely available (the shock-wave equipment costs about \$2 million), prevention is still the best treatment. Your doctor may recommend a diet low in calcium and protein plus lots of water. That should flush out any small stones you may have and help prevent others from forming. **18**

Norman Brown, who lives in Providence, R.I., writes frequently on medical topics.

Some good news for a change: New techniques offer hope of relief from kidney stones without surgery; the IRS will give you more than 60 days to roll over pension money in some cases; and a new book is actually helpful to investors.

For Your Tax File

By Gerald W. Padwe, C.P.A.

Worth Less Than The Sum Of Its Parts?

Can shares of stock in a corporation be valued differently on the same tax return?

You would think not, but a recent Tax Court decision says "could be."

Consider the case: Corporation A was solely owned by one individual. On his death, he left 51 percent of the shares to his wife and the other 49 percent to two other beneficiaries.

Estate-tax law requires that the total value of Corporation A shares be included in the decedent's gross estate—let's set the value of those shares at X dollars.

In moving from the gross estate to the amount subject to estate tax, one of the biggest deductions allowable is the marital deduction.

Property left to a spouse, either outright or in the form of certain qualifying-trust arrangements, passes tax-free to the surviving spouse and reduces the amount subject to tax.

The question for the Tax Court to consider was the value of the 51 percent interest bequeathed to the widow. Since 100 percent of the company was valued at X dollars, the easy answer was that the government's contention was that the marital deduction equals .51X dollars.

In this case, though, the estate argued that inasmuch as the 51 percent interest represented control of the corporation, that control was entitled to a substantial premium in value. In fact, the estate's position was that the 51 percent controlling interest to the widow justified a marital deduction of 89 percent of the stock value included in

the gross estate, leaving only 11 percent subject to tax.

The Tax Court did not pass on the value of the 51 percent block, leaving that to further litigation.

The court did, however, reject the government's contention that the control-premium concept should not even be considered by the court and agreed to resolve the question of whether the 51 percent block was worth 89 percent, or for that matter, 54 percent or some other number.

The other side of the coin involves the 49 percent block.

One hundred percent ownership, broken into two discrete blocks, could wind up being worth less than the 100 percent of the corporate value reported in the gross estate.

The court recognized that lack of control would make this holding worth less than its 49 percent nominal value. Interestingly, the court speculated (since it did not have to decide the issue formally) that the noncontrol discount and the control premium might well be very different numbers.

That would mean that the 100 percent ownership, broken into two discrete blocks, could wind up being worth less than the 100 percent of the corporate value reported in the gross estate.

This case could have ramifications in other areas.

For example, if you donate to a charity closely held stock that is less than a controlling interest, could the Internal Revenue Service use this case (assuming IRS loses it) as precedent for reducing the value of your donation for income-tax purposes?

Could be.

Pension Rollover Timing

You can defer taxes from early distributions from pension and profit-sharing plans by rolling them over into an IRA, or, in some cases, another qualified plan, to avoid current tax. Amounts can also be removed from one IRA and re-deposited in another without incurring tax.

In all cases, the rollover must be done within 60 days of payment to the beneficiary. The 60 days is interpreted literally—it does not mean two months.

In most situations, identifying the 60-day period is easy.

If, for example, you walk into the financial institution holding your IRA and withdraw money from your account, that amount must be deposited elsewhere within 60 calendar days from when you walked in. Or, if you are switching employers and the qualified profit-sharing plan sends you a check for your account balance, you have 60 days from when you receive the check to redeposit the funds in a qualified IRA or plan trust.

Let's say, however, that you have participated for six years in your company's Employee Stock Ownership Plan (ESOP). But the company was sold in May of this year to owners who are not continuing the ESOP. Because it takes several weeks to wind up the affairs of the ESOP, you receive a check for 80 percent of your final account balance on Sept. 1, 1987, and the remaining 20 percent on Nov. 1, 1987. When do you have to roll over what to avoid current tax?

At first glance you might think that the 80 percent had to go elsewhere by October 31—60 days after receipt—and the rest by December 31.

However—good news—there is one key fact which gives you until December 31 to roll over the entire balance: These payments qualify as a "lump-sum distribution" because you have received the entire balance to your account within one taxable year—calendar 1987.

The IRS has repeatedly said that since both payments are part of one lump-sum distribution, you have 60 days from the last installment to accomplish your rollover. ■



Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.

It's Your Money

By Ray Brady

That Rare Thing, An Investment Book Worth Reading

If there is one type of book that I usually find a waste of time to read, it's the kind that promises to show you how to make big money in the stock market—books with titles like *How To Make \$10 Million in the Stock Market*, or *Secrets of a Wall Street Plunger*.

About 20 years ago, I read Gerald Loeb's classic *The Battle for Investment Survival* (Simon and Schuster) along with Graham and Dodd's landmark work on security analysis. Ever since then, it has seemed to me, the investment books that have come across my desk have been a dreary collection of how-to-get-rich works that carry the same advice I had read in other books or were simply filled up with meaningless information.

But I recently came across one that, by and large, merited the hour or two that I took to read it. A book, in other words, that had some lessons of real value to an investor.

The book is called *The Passionate Investors*, by Madelon DeVoe Talley (Crown Books). She's now part of a private investment partnership called Polaris Partners in New York. Before that, she was director of investments and cash management for the state of New York, and then went on to become a vice president of the investment bank Rothschild, Inc., New York, and president of its asset-management division.

Talley interviewed some of the top investors in the country and found out just what they did to amass their millions in stock-market profits. This is basically what investment counselor John Train set out to do a few years ago in *The Money Masters*. But where Train failed dismally—he never told you how the John Templetons and Warren Buffetts really did it—Talley has succeeded.

Take John Templeton, the guru of

Madelon Talley interviewed investing giants to find out how they amassed their fortunes. She's published their rules in The Passionate Investors.



PHOTO: DONNA FERRATO

mutual funds, a man who made so much money in stocks that he can now run his business from Nassau, in the Bahamas. Templeton's the man who many thought had lost his sanity when he predicted several years ago that the Dow Jones Industrial Average would go to 3,000. At this writing, the Dow has taken a licking on a few trading days, but it's much closer to that magic 3,000 number than it was when Templeton made his prediction.

So, listen to just one of the rules that Talley got from Templeton: Enjoy paying taxes when you sell securities. That sounds odd. But as Templeton sees it, the investor should focus on one objective—getting the maximum total return after taxes on his money.

Many investors (this writer included) have lost money in the market by putting off a sale and hanging on to a stock to beat taxes. It just doesn't work. You can end up losing more if a stock drops than you would have paid out in taxes.

Another rule Talley got from Templeton: If you want to know how good a company's management is, look at the numbers. If there's a god of financial journalists, he may strike me dead for writing this, but many investors get carried away by reading starry-eyed newspaper or magazine accounts about hot-shot managers. Seasoned Wall

Street veterans, for that matter, have been dazzled by phonies or incompetents who looked good in pin stripes. So, says Templeton, judge managers by the bottom line.

Talley also interviewed Warren Buffett, who sits out in Omaha, far from the madding crowd on Wall Street, and makes shrewder investment decisions than any two dozen Wall Streeters. One of Buffett's points: When you're looking for an investment, try to find a business that is good not because of its management but because of the nature of the business itself.

Talley cites an example one would not think of in a million years: *The Daily Racing Form*, owned by Walter Annenberg. It's the highest-priced daily newspaper in the United States, going for \$2 a copy. More to the point, the business has extraordinary profit margins because it's a monopoly, and it's a "must" for horse players everywhere. Because he was able to spot investments of that sort, Buffett has made millions in the media.

Peter Lynch manages the Magellan Fund at Fidelity Management in Boston. Again and again, the Magellan fund has outdistanced the other 380 funds monitored by Lipper Analytical Services. One of Lynch's rules is deceptively simple, but it's also one that too many investors forgot or never realized. As he puts it, there are just two ways to make money in the stock market: Invest in a small growth company or in a turnaround. Buy a small, profitable company, says Lynch, own it for a while and watch it turn into a medium-sized profitable company.

When it comes to turnarounds, though, Lynch warned Talley to beware of bottom fishing—buying a stock that's down and out because you figure it won't go lower. Even \$1-a-share stocks can go down to ¼.

Toward the end of the book, I have to admit, Talley seems to have run out of investment types to interview. There are several short sections with titles like "Governmental Attitudes" or "Interest Rates." They kind of smack of a publisher's saying, "We have to pad this out, give the customer more book, if we want to charge \$18.95."

So simply skip about the last quarter of the book. Instead, check out the sections where Talley interviews the giants of investment, and commit a few of their rules to memory—they could make you some money or keep you from losing some. **B**



Ray Brady is the business correspondent for CBS News.

Ready, Fire, Aim

Harland Stonecipher's philosophy helped create an insurance industry that his company, Pre-Paid Legal Services, dominates.

By Roger Thompson

Fifteen years ago, Harland Stonecipher, a small-town Oklahoma life-insurance salesman, set out to revolutionize the way most people pay for legal advice. He staked his future on a simple idea—Americans need low-cost legal insurance.

He envisioned a \$15 billion-to-\$25 billion industry taking care of the routine legal matters of 140 million middle-income Americans. Problem was, nobody had ever heard of legal insurance. "When we started, people said, 'prepaid what?' They didn't understand the concept," Stonecipher recalls. "A lot of people laughed. But most of them have stopped."

And for good reason. Today, Stonecipher, 49, heads one of the country's fastest growing publicly traded small companies, Pre-Paid Legal Services, Inc. Revenue soared from \$4.5 million on 39,836 policies sold in 1983 to \$42 million on 229,632 policies in 1986.

By all indications, 1987 will be another year of record growth. Pre-Paid currently operates in 26 states and adds more as quickly as it wins approval from state insurance departments. State regulations also influence the cost of coverage, which ranges between \$10 and \$16 a month for the basic policy.

Stonecipher started in Ada, Okla., a college and farm town of 17,000 about two hours' drive southeast of Oklahoma City, because he couldn't afford to go anywhere else. Friends and acquaintances who believed in him, even when he didn't have a product to sell, put up the seed money to launch Pre-Paid.

He has stayed in Ada by choice, even as the payroll swelled to more than 150 employees. It's home. He grew up nearby in Tupelo, the youngest of five children reared by sharecropper parents.

Stonecipher escaped the poverty of his youth, but couldn't leave the land. He and his wife of 28 years, Shirley, and two sons live on a 1,000-acre spread outside Tupelo—an average-sized homestead by Oklahoma standards.

Harland was the only member of his family to finish high school and the first to attend college—East Central University in Ada.

Now a busy executive, Stonecipher bounds from behind his desk to wel-



PHOTO: STEVE JENNINGS—PICTURE GROUP

Harland Stonecipher spends about as much time on the road promoting his company as he does at his desk at Pre-Paid's Ada, Okla., headquarters.

come a visitor to his company's headquarters. It's one of those rare weeks when he's not flying around the country promoting the company. He has time to relax and talk.

He likes to show visitors around—especially the skeptics. One look at Pre-Paid's state-of-the-art computer and telecommunications equipment tends to assuage doubts about the company's ability to manage the flood of mail and calls that are the lifeblood of the business: 15,000 claims, 60,000 incoming calls and 450,000 electronic fund transfers during an average month.

Yet, a stranger driving down Main Street might not realize that he had just passed one of America's "sunrise" industries, a term Stonecipher uses to describe emerging high-growth companies.

Pre-Paid's building is just as unpretentious as Stonecipher himself. The company renovated a former auto dealer's showroom rather than build a new office. Flanking it is Wall's Family Bargain Center and Howard Sheet Metal and Roofing Company. Just down the street is G.G. Western Wear, where

boots reign supreme, and you can bring your saddle in for repair.

Ada may be a small town, but Stonecipher's ambition knows no limits. He has firmly believed from Day 1 that legal insurance is, according to the company motto, "an idea whose time has come."

The company grew slowly but steadily during its first decade, relying heavily on group sales to teachers, unions and businesses. In 1983, Stonecipher approved an experiment in which an old friend and former boss, John Hail, would sell the insurance plan through multilevel marketing—with sales agents recruiting other agents. Stonecipher notes it is the same person-to-person sales technique used by Amway and Mary Kay to push household cleaning products and cosmetics.

Hail formed TVC Marketing Associates as the vehicle for conducting the experiment in several states. He sold so many policies that Stonecipher bought TVC Marketing Associates in 1985 and embraced multilevel marketing as the exclusive vehicle for selling Pre-Paid's contracts. Under multilevel marketing, the company's sales force has swelled to over 200,000 people. New agents pay \$55 for sales materials—refundable if they decide not to continue.

Even in states where it hasn't won

LESSONS OF LEADERSHIP

Ready, Fire, Aim

Stonecipher raises hounds on his ranch and recently acquired Master, a Tennessee walker, to ride in fox hunts.

insurance-department clearance to sell legal insurance, Pre-Paid will begin marketing its first non-insurance product, called the TVC Advantage. It is a package of consumer-oriented services featuring a toll-free shopping number guaranteeing the lowest prices on 250,000 brand-name items—including delivery—for an annual membership fee of \$120.

Stonecipher is convinced that the TVC Advantage is "the next step beyond Wal-Mart," the highly successful discount retail chain. "People want to save money, and they want convenience. We're offering both."

Like most fast-growing companies, Pre-Paid has experienced a few setbacks along the road to success. The most serious came back-to-back this year.

The company suffered its first operating loss since 1975 last spring, forcing a shake-up in the way it pays claims. "Our goal had always been to pay claims quickly and efficiently, usually within seven days," says Stonecipher. "We were very proud of that record, but it caused us to overlook some excessive claims along the way. In the first six months of the year, we paid out \$2 million in excessive or fraudulent benefits."

New personnel and procedures, plus the addition of a five-person fraud-investigations department, restored the company to profitability in July and August, says Stonecipher. "This was the worst problem we have had in the history of our company. But we corrected it, and now we're back on track."

But even before the company announced its first-half financial dip in early July, professional short sellers moved in on Pre-Paid's stock, betting heavily that it would tumble, which it did. (Short sellers make money only when a stock price falls.)

Pre-Paid's stock skidded from just over \$10 per share in June to a low of 3%, netting the short sellers about \$5 million in profits, says Stonecipher. He says the short sellers accelerated the decline by spreading rumors designed to cut market confidence in the stock.

Pre-Paid struck back by filing a complaint with the Securities and Exchange Commission calling for an investigation of the circumstances surrounding the sharp fall in the price of the stock. The agency is currently conducting a review of the matter.

Stonecipher says that Pre-Paid's



PHOTO: STEVE JENNINGS-PICTURE GROUP

stock price will rebound. It's now trading at about $4\frac{1}{2}$ a share, and Stonecipher confidently maintains that "the company today is in its best shape since 1973."

This is vintage Stonecipher. He learned self-reliance at an early age from his parents. They couldn't give him money or status, he wrote in a high-school essay. But they gave him "integrity and belief in myself... I realize I'm not anything special and don't have any more ability than anyone else; but Dad believes I do, and as a result, I believe I do. Believing gives you strength to overcome." Over the years, he has needed a great deal of strength.

Fresh out of college in 1961, Stonecipher embarked on his first career, teaching English, debating and drama. Much to the dismay of larger city schools, his farm-country kids made a habit of coming out on top in statewide debating and drama competitions. His admiring students called him "Boss."

Stonecipher was so good at what he did that his decision to resign in the spring of 1966 and try his hand at selling life insurance caused considerable dismay. He loved teaching but literally couldn't afford to continue. Any doubts he had about the switch soon vanished. In his first month, Stonecipher made more money in commissions than he had in the previous year as a teacher.

Stonecipher quickly became a star salesman but eventually quit in a dispute with management. After a brief venture in real estate, he was recruited as marketing director of another Oklahoma life-insurance company.

By the early 1970s Stonecipher began to dream of starting his own insurance business. Why not do for himself what he had done so well for others? But a head-on auto collision that he miraculously survived set his life on a new course.

Although the accident wasn't his fault, the legal tangle left in its wake mounted into thousands of dollars in attorney's fees. Distressed by the drain on his finances, Stonecipher began to wonder why no one provided legal insurance to cover costs associated with accidents. And, for that matter, wills, divorces, civil suits, etc.

"If I hadn't had the accident, I probably would have started a life-insurance company," says Stonecipher. But the lure of pioneering the legal-insurance industry was too strong to resist.

Stonecipher concedes he didn't know what he was doing when he started. His business plan consisted of a few ideas scrawled on a half sheet of paper tucked into his top desk drawer.

His entrepreneurial instincts, more than anything else, guided him during those early years. In retrospect, he says he couldn't have started any other way. "If you wait until you know all the answers, you're not going to start. My theory is simple: ready, fire, aim. I think that's the story of anybody who makes a success."

"What that means is that you adjust your course as you go along. In truth, if you knew how tough it's going to be, you probably wouldn't start. You're better off when you don't know."

"Looking back," he muses, "it seems like everything I've done was like jumping off a cliff. But it seems like when I've jumped, things have come out fairly well."

Although Pre-Paid now has half a dozen competitors in the legal-insurance market, it remains the leader—right where Stonecipher intends to keep it.

"Every year I spend at this, I'm more determined to be a part of the company that makes it [legal insurance] grow," says Stonecipher. "It would bother me for the rest of my life to think that we had put this much effort into it and failed to continue to be the dominant force." ■

Editorials

Congress could realize a substantial amount of the new revenues it is seeking by cutting taxes, not increasing them.

An Offer Congress Shouldn't Refuse— A Revenue Increase Via A Tax Decrease

In 1978, Congress cut the maximum tax rate on long-term capital gains from 49 to 28 percent, overriding the opposition of liberal members who protested that the move was a giveaway to the wealthy.

Their argument was quickly rebutted by the impact of the reduction. Spurred by the lower rate, investors realized substantially more capital gains in 1979, and the government collected an additional \$2.6 billion in taxes from that source.

The capital-gains rate was further reduced in 1981—to a maximum 20 percent, producing an additional increase in capital-gains realization and a \$1 billion-a-year jump in tax collections.

In 1986, however, the top rate on individual long-term capital gains was raised to 33 percent as part of the massive tax-reform act. That action was taken because the White House and Congress were determined that the overall tax changes be "revenue-neutral."

Thus, any cut in one source of revenue had to be counterbalanced by a revenue increase of the same amount.

To balance some of the cuts in personal-income and corporate-tax rates, the capital-gains rate was increased.

Because the federal deficit has continued at unacceptably high levels for reasons not connected with tax reform, Congress is looking for additional revenues of about \$12 billion as part of a deficit-reduction package for the 1987-88 fiscal year that began October 1.

The House Ways and Means Committee is considering a list of possible tax increases, but it is far from certain that any boosts that panel recommends would win approval in the Senate. Even if they did, President Reagan has repeatedly pledged to veto any bill to raise taxes. And he has enough congressional support to make such a veto stick.

Rather than concentrate on raising taxes, therefore, Congress should re-examine its position on capital-gains taxes in view of the experience that



Technology research that can lead to new products and more jobs is among the economic areas that suffer from ill-advised tax policies, such as excessive capital-gains taxes.

lower rates translate into more revenues.

This relationship has been closely examined by Lawrence Lindsey, assistant professor of economics at Harvard University and faculty-research fellow at the National Bureau of Economic Research. He estimates that rolling back the capital-gains tax to 15 percent would produce \$3.5 billion to \$7 billion in additional collections in 1988 alone.

Congress could therefore realize a substantial amount of the new revenues it is seeking by cutting taxes, not increasing them. Such a course has the added attraction of providing new revenues in a manner that encourages economic activity.

Keeping long-term capital-gains rates at the current high level deters investors from providing the capital needed for forming and expanding businesses, for technological innovation and for other activities vital to keeping the economy healthy.

Reducing the capital-gains tax rate to 15 percent would provide a substantial amount of the revenue Congress needs to meet its 1988 deficit-reduction target and would make a major contribution toward prolonging the five-year recovery. The lawmakers should seize the opportunity to vote for this winning combination.

Two Requisites Of Trade Policy

The debate over U.S. trade policy focused for a long time on whether the protectionists or the free traders would prevail.

The proper answer is neither side, and, as Congress moves toward enactment of comprehensive trade legislation, a middle position is emerging.

The trade policy now being fashioned should reject the extremes of protectionism on one side and, on the other, a

free-trade purity that invites exploitation.

It should recognize that many of this nation's trade problems have resulted from countries taking advantage of America's open markets while they unfairly restrict the import of U.S. goods into their own countries.

Congress will make a major contribution to the nation's ability to compete in international trade and to world economic health if it produces a trade policy that rejects protectionism while adopting a much tougher stance to make the world aware that fair trade is a two-way street.

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"Very roomy and comfortable."

"Roomy inside."

"The inside is roomy."

"Comfortable, it was comfortable."

"Roominess on the inside."

"I like the roominess."

"Interior room, leg room."

"Comfortable, good size trunk."

"Roomy and comfortable."

"Roominess, space to put things."

"Easy to put luggage in trunk,
easy to get in and out of."

"Comfortable."

"Comfort on the inside."

Some of the answers by personal and business travelers to the question "What did you like the most about the Corsica?" From a survey of rental car customers, 2/16/87.



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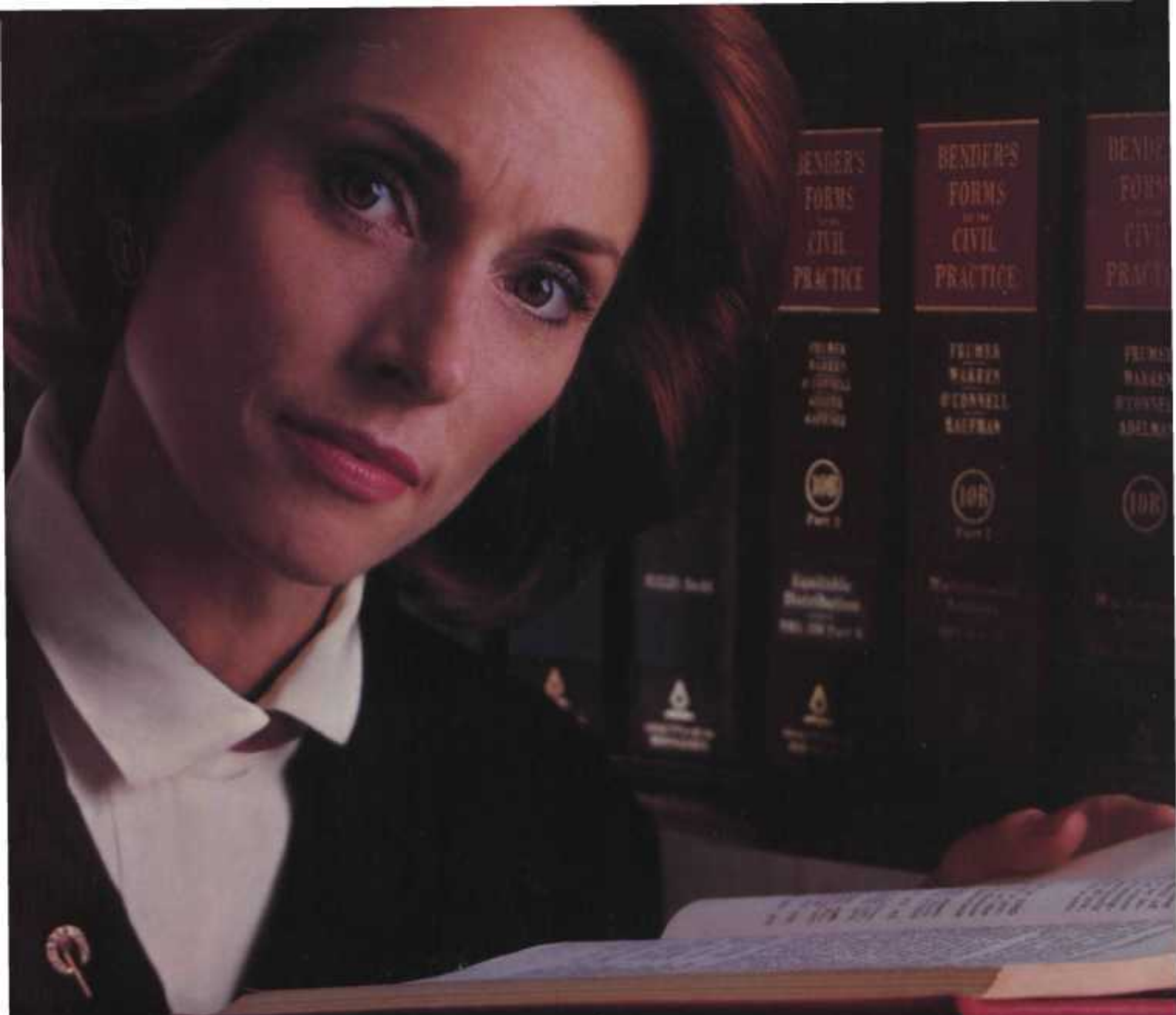
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	Leg Room	43.4"	42.1"
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	Hip Room	50.9"	52.4"
REAR SEAT	Head Room	37.4"	38.0"
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	Shoulder Room	55.6"	56.2"
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